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GREAT PLAINS COAL GASIFICATION PROJECT

HEARING

BEFORE THE

COMMITTEE ON ENERGY AND NATURAL RESOURCES UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

SECOND SESSION

ON THE

PENDING SALE OF THE GREAT PLAINS COAL GASIFICATION PROJECT

SEPTEMBER 12, 1988

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GREAT PLAINS COAL GASIFICATION PROJECT

MONDAY, SEPTEMBER 12, 1988

U.S. SENATE,
COMMITTEE ON ENERGY AND NATURAL RESOURCES,
Washington, DC.

The committee met, pursuant to notice, at 10 a.m., in room SD-366, Dirksen Senate Office Building, Hon. Kent Conrad presiding.

OPENING STATEMENT OF HON. KENT CONRAD, U.S. SENATOR FROM NORTH DAKOTA

Senator CONRAD. This hearing before the Senate Committee on Energy and Natural Resources will come to order. Good morning and welcome to you all.

I am Senator Kent Conrad, and I want to thank the distinguished Chairman of the committee, Senator Bennett Johnston, for agreeing to hold these hearings. Senator Johnston has been a good friend of the Great Plains plant, and I appreciate his efforts on behalf of the project including his visit to the facility last month.

I am pleased to be able to chair this hearing today to review the announcement by the Department of Energy that it has selected Basin Electric Power Cooperative of Bismarck, North Dakota, as the preferred buyer for the Great Plains project.

The project shines as an example of what America can do to meet the challenges posed by the volatile world energy economy completed under budget and ahead of schedule. The project produces a 142 million standard cubic feet of synthetic natural gas per day from lignite coal to displace energy imports from foreign sources. The project is operating above its design capacity, and its highly efficient operations have kept operating expenses lower than expected. Further, Great Plains profitably produces and sells several byproducts and holds the potential to produce many more. Employees at the facility are highly dedicated to their task and they are justifiably proud of the job that they are doing.

While the project has been an overwhelming technical success, fluctuating world oil prices have made the project's economic future less certain than originally projected. The volatile world energy economy, however, is the precise reason why America must rely upon projects such as Great Plains to guard against future shocks in the price of energy.

As the distinguished ranking minority member of this committee, Senator McClure, stated during his visit to North Dakota last month, Great Plains has been a prudent insurance policy against wild escalations in the price of oil and the accompanying disruptions to the economy of our country. Great Plains stands as more

than an example of America's technological achievement. It stands also as a deterrent to energy blackmail by interests that would otherwise reap unjust rewards at the expense of the American consumer.

We hear a lot of talk these days about how this country must develop a national energy policy. I agree. And I submit that a policy which is capable of meeting our energy needs will have to include synthetic fuels as a vital component. It has been said that this Great Plains plant is the flagship of America's syn fuels industry and I have no doubt that it will play an important role in maintaining America's energy security. Having suffered the consequences of foreign source dependence in the 1970s, and in view of import levels today approaching 40 percent of consumption, America cannot afford to place all of its energy dependence upon crude oil, much of it foreign.

Having commented upon the importance of this facility to the Nation, let me also state how important the project is to my home state, the State of North Dakota. Employing over 800 people the project is the largest industrial facility in the state. The state, and more particularly the residents of Mercer County, North Dakota and the surrounding communities of Beulah and Hazen, have a very significant stake in the future of this project. Long-term operation of the plant is an important object for local residents, state officials, the North Dakota congressional delegation and, indeed, all of the people of our state and region, and I believe that the sales agreement for us offers excellent prospects for continued operations.

We will examine today a number of areas, among them are: one, the bids of the finalists; two, the composition of the trust funds; three, the status of the siting permits; four, questions of air quality; five, employee retirement funds and employee benefits; and six, the ability of the successful bidder to pursue byproduct development and marketing.

The Department of Energy was fortunate to have received offers from a number of well-qualified bidders, and I am pleased the Department has pursued such a clearly professional process to determine the preferred buyer for the plant. Basin Electric is a familiar name to the people in my state, and I believe that the cooperative will do an excellent job in operating the facility. I also believe that return of the project to private ownership will enable the plant to maximize its technological and economic potential.

Finally, I welcome Mr. J. Allen Wampler, the Assistant Secretary of Energy for Fossil Fuels, who is here today to testify before the committee. As chief negotiator for the sale for the Department of Energy, Mr. Wampler has exhibited the kind of professional judgment that citizens have a right to expect from those in public service. He has demonstrated in my judgment the highest regard for the taxpayer, the energy security of the Nation, and the concerns of those whose lives are most directly affected by the future of the project.

And with that, I want to welcome Mr. Wampler and again to publicly commend you for what I think is an absolutely superb handling of a very difficult problem facing the Department and the people of my state and the Great Plains facility itself. Secretary Wampler?

[The prepared statement of Senator McClure follows:]

OPENING STATEMENT
SENATOR JAMES A. McCLURE (R-ID)
COMMITTEE ON ENERGY AND NATURAL RESOURCES
MONDAY, SEPTEMBER 12, 1988

OVERSIGHT OF DOE'S GREAT PLAINS SALES CONTRACT

Good morning. I wish to commend Chairman Johnston for holding this oversight hearing on DOE's proposal for the sale of the Great Plains Coal Gasification Project to the Basin Electric Power Cooperative of North Dakota. I have long been concerned for the continued operation of this facility following its Federal divestiture. Indeed, the Senate has supported this position with its adoption of the Conrad amendment to the Fiscal Year 1988 Interior Appropriations Act.

I recognize that we would not be holding this hearing if it were not for default on a Federally guaranteed loan to the Great Plains' sponsors. Nevertheless, Great Plains, and the Federal synthetic fuels program of the early 1980's, represents a testament to the foresight of America's energy leaders, not an example of their failures. Just as it took visionaries in the 1950's to build full-scale commercial nuclear power reactors at the Idaho National Laboratory, it took courage and leadership in the early 1980's to undertake the commercial production of synthetic fuel.

Synfuels projects such as Great Plains will continue to be risky ventures, but they do provide an insurance policy against threats to our nation's dependency upon foreign oil in decades to come. Just as the existence of the strategic stocks held by International Energy Program members has, in the short-term, served to dampen international oil prices throughout the Iraq-Iran war, the existence of a domestic

synthetic fuels capability can serve to dampen international oil prices in the long-term.

In addition to Great Plains, there are only four other synthetic fuels projects: the Unocal Oil Shale Project, in Parachute, Colorado; the Dow Syngas Project, a coal gasification project in Plaquemine, La.; the Forest Hills heavy oil project in Quitman, Texas; and the Cool Water Coal Gasification, an advanced technology for electric power generation, in Daggett, Calif.

For these, and other reasons, it is critical that the continued operation of Great Plains be assured following its divestiture by the Federal Government. I am pleased that the Chairman considered the continued operation of Great Plains of sufficient importance to our national energy security to have scheduled this hearing, today.

Thank you, Mr. Chairman.

STATEMENT OF J. ALLEN WAMPLER, ASSISTANT SECRETARY FOR FOSSIL ENERGY, DEPARTMENT OF ENERGY, ACCOMPANIED BY LAWRENCE R. OLIVER, ASSISTANT GENERAL COUNSEL FOR PROCUREMENT AND FINANCE

Mr. WAMPLER. Thank you, Mr. Chairman. I certainly appreciate the opportunity to appear before you here today to discuss the pending sale of the Great Plains Coal Gasification Plant. I have with me at the table Mr. Larry Oliver, who is the Department's Assistant General Counsel for Procurement and Finance and, I might say, Mr. Chairman, an individual that has done an outstanding job in representing the government in carrying out this divestiture effort.

Seated behind me are two other staff members of the Department who also deserve special recognition for their outstanding efforts: Ms. Laurie Ford, who is on Mr. Oliver's staff; and Mr. Howard Borgstrom, who is part of my staff. Both of these individuals have worked very long hours to bring to the table pending sale terms that represent a "win-win" arrangement for both the government and the local North Dakota region.

Mr. Chairman, I have prepared a formal statement describing the divestiture process and its current status, and I would ask that this statement be included for the record.

Senator CONRAD. Without objection.

Mr. WAMPLER. I will take only a few minutes to summarize its key points.

As the committee is aware, the Secretary announced on August 5, 1988, that the Basin Electric Power Cooperative was the Department's preferred buyer for the Great Plains plant. The offer submitted by Basin will return to the taxpayer a substantial portion of the public investment made in this facility, and it will restore private sector ownership in a way that virtually assures that the plant will continue to provide jobs and economic growth for the North Dakota region.

We looked at offers to buy Great Plains from two perspectives: one, their value to the government; and two, the commitment of the prospective owner to continue plant operations. Both were of equal priority in our evaluations.

We went through an exhaustive analysis. As my testimony describes, we engaged Shearson Lehman Hutton as our financial counselor. We solicited statements of interest initially, then after conducting site tours and briefings with interested parties, we asked for firm offers. Nine organizations responded.

Our objective, Mr. Chairman, was to maximize competition. That was, in our opinion, the best way to judge the value placed on the facility by the marketplace. The fact that nine prospective buyers submitted offers is an indication that the process was, indeed, a highly competitive one.

We attempted to enhance that competition by selecting multiple offers for parallel negotiations prior to choosing the best bid. We engaged in some very hard-nosed negotiations with three of the nine prospective buyers in an attempt to elicit the bid that returned the highest value to the government and which gave the best assurances of continued plant operation. Those negotiations

continued to within hours of the time that we made the final decision.

From the offers submitted by the three finalists, the Department ran a series of complex and detailed computer analyses. Different combinations of discount rates and energy price projections were used in an effort to give us a picture of the plant's value under a variety of future scenarios. In total, nine different combinations of price forecasts and discount rates were examined, along with an undiscounted comparison. The results of these analyses are included as an attachment to my testimony.

From this process, the bid from Basin Electric emerged as the preferred choice both from the standpoint of value to the government and assurances of continued operations. As you can see by the tables at the conclusion of my formal statement, Basin's bid represented the highest value to the government in each of the scenarios we ran.

Basin's offer to the government could have a financial value over the projected life of the facility as high as $1.8 billion, undiscounted. But that tells only part of the story, Mr. Chairman. It is important to look at the components of that number to understand the real value that it represents.

As my testimony describes, there will be a cash down payment. There will also be a return of a portion of the funds from the project's cash reserves. There will be the receipt of Federal income taxes, and there will be two additional sources of income that warrant special mention.

First, the production tax credit. Basin has decided to forego the entire amount of the production tax credit that could have been available to the project. They were the only one of the three finalists to waive the full amount. This added substantial value to their offer, and it should assuage those concerns that the plant would be bought only as a tax shelter.

Basin also offered a very fair revenue sharing provision. There were those, Mr. Chairman, who were convinced that the government would be turning away a long-term source of revenue by selling the plant, particularly if energy prices should rise in the future. The revenue sharing provisions should take care of those concerns. While we are discussing value to the government, Mr. Chairman, let me add one other point.

In carrying out our analyses, we recognized that returning the plant to the private sector had an intrinsic value that could not be easily quantified. It removed the government as a direct competitor in the gas business, it reduced future Federal liabilities, it brought a greater degree of local stability, and it opened up the possibility of future commercial expansion of the facility into different product areas.

These elements were hard to quantify, but they do represent a value over and above that which would be obtained if the government continued to run the facility.

Nonetheless, we thought it was important to compare the offers with a range of projections that assumed the government would retain ownership, the GOCO option. In the majority of cases, the Basin offer exceeded the GOCO value. In those cases where it didn't, it was sufficiently close to give us confidence that the gov-

ernment would not be taking a major financial loss by selling the plant. And given that, these other factors I mentioned would sufficiently offset the small reduction in financial value.

The results of that analysis, which are described in my statement in more detail, gave us confidence that the government could obtain the best value by selling the project to Basin rather than running it as a GOCO operation.

Let me mention one of the very important considerations. Basin in our judgment offered the best assurances of continued plant operation. We recognize the importance of this facility to the local economy and to the welfare of not only the nearly 900 employees, but also to their dependents and to those who have jobs in North Dakota because of the plant. Assurance of continued operation has been a priority in the Secretary's decision-making on this project since the original default three years ago.

Of the three finalists, Basin gave us the best guarantees possible that the plant will continue to operate. They will be legally bound to operate the plant until the year 2009, as long as revenues exceed expenses. They have also agreed to commit $30 million over the entire life of the plant to create a revolving line of credit to support plant operations, in the event that expenses do not exceed revenues.

This commitment was also enhanced by an inherent incentive within Basin's own power generating system. Basin operates a power station adjacent to the Great Plains site and provides electricity to the plant, while sharing coal and water supplies. Basin could experience a substantial loss in net revenues if the project was forced to shut down.

Senator CONRAD. Mr. Secretary, might I just stop you right there and get clarification on a point that you just made?

On the $30 million line of credit, will that be used as part of the determination as to whether or not expenses are exceeding revenues?

Mr. WAMPLER. As part of the determination?

Senator CONRAD. Yes.

Mr. WAMPLER. Yes, sir, it will be.

Senator CONRAD. All right.

Mr. WAMPLER. In short, Basin demonstrated a superior commitment to long-term operation and that weighed very heavily in our evaluation process.

Senator CONRAD. Let me just stop you again and make sure that we've got a meeting of the minds on this question.

Basin has a commitment to operate the facility as long as revenues exceed expenses. The $30 million line of credit—is that part of the calculation? In other words, would it be possible for expenses to exceed revenues to the extent of $30 million before a shutdown of the facility would occur?

Mr. WAMPLER. Yes, that's true.

Senator CONRAD. So, that $30 million would have to be used up first before the plant could be closed because expenses were exceeding revenues.

Mr. WAMPLER. That's true. Yes, sir.

Senator CONRAD. All right.

Mr. WAMPLER. We are now conducting final negotiations with Basin to complete an asset purchase agreement. Negotiations should be concluded within the next two to three weeks, shortly after the 30-day congressional review period expires. At that point, we will move immediately toward closing.

I might mention, Mr. Chairman, that a high priority has been placed during these negotiations on local and regional concerns, including impacts on employees and their benefits. The Department has certain responsibilities to employees now working at the plant, and we will continue to abide by those obligations.

Basin has assured us that no major changes will occur during the transition in ownership, which will take from six months to a year. Basin has further assured us that all employees who are retained will receive credit toward accruing various benefits for their years of service at the plant.

The Department is also evaluating a request to allow any participant in the savings and retirement plans whose employment is terminated to vest immediately, regardless of years of service. As soon as we complete our review of the current number and status of plant personnel covered by these plans, we will make a final decision.

In short, Mr. Chairman, we are very pleased with the progress made to date in returning this plant to the private sector. We believe we have received fair market value for the plant, and that the taxpayer will be seeing a fair return of Federal dollars invested in this facility. We also believe that we have put the future of the Great Plains plant on a more solid foundation than at any time in the project's history, and we have done so in a way that removes future Federal liabilities, while giving the plant its best opportunity to continue operations and perhaps to expand its economic value.

That concludes my statement, Mr. Chairman. I will be happy to answer any questions you may have.

[The prepared statement of Mr. Wampler follows:]

Statement of J. Allen Wampler
Assistant Secretary for Fossil Energy
U.S. Department of Energy
Before the
Committee on Energy and Natural Resources
U.S. Senate

September 12, 1988

Mr. Chairman and Members of the Committee:

I am pleased to review with the Committee the progress of our efforts to return the Great Plains Coal Gasification Plant to private ownership.

On August 5, 1988, Secretary of Energy John S. Herrington announced that Basin Electric Power Cooperative was the Department's preferred buyer for the Great Plains plant. The Secretary's announcement set into motion the final stage of the Great Plains divestiture process. When this process is concluded, hopefully within the next 30 days, it will successfully complete an action that began with the largest foreclosure in the history of the Federal Government. Most importantly, it will return to the taxpayer a substantial portion of the public investment made in this first-of-a-kind energy facility, and it will restore private sector ownership in a way that virtually assures that the plant will continue to provide jobs and economic growth for neighboring communities.

On August 24, 1988, the Basin Electric membership voted unanimously to conclude an agreement with the Department to acquire the plant.

As I will describe in my testimony, the offer submitted by Basin could have a value to the government as high as $1.8 billion over the next 21 years (the remaining length of the plant's gas purchase agreements). As the Secretary said, the offer submitted by the consumer-owned, regional cooperative offered the best combination of value to the government and assurances of continued operation of the plant. Both were key elements of our evaluation and selection process.

My testimony today will focus on five major points:

-- the circumstances that led to the government's takeover of the Great Plains plant and our subsequent efforts to return it to the private sector;

-- the process followed by the Department to identify prospective buyers for the plant;

-- the rationale for our selection of Basin from nine offerors;

-- the status of ongoing negotiations to conclude an "Asset Purchase Agreement" to transfer the project to Basin; and

-- specific efforts we are making to ensure that the plant is turned over to Basin with a stable workforce and with full consideration of local concerns.

Background

The Great Plains Coal Gasification Plant, located near Beulah, North Dakota, is the Nation's only commercial-scale project built to produce pipeline quality synthetic natural gas from coal.

Built between 1981 and 1984, the plant was designed to convert North Dakota lignite into 125 million standard cubic feet (mmscf) of synthetic natural gas per calendar day over the 25-year projected life of the facility. To achieve this sustained level of production, the design called for a capability of 137.5 mmscf per stream day, with the assumption that the plant would be on-line 91 percent of the time. Based on more than three years of operational and maintenance experience, the facility can now be operated to deliver approximately 142 mmscf per calendar day to the pipeline with the potential for further production increases.

Planning for the project began within the private sector in the early 1970's when oil disruptions and price increases created interest in constructing plants to convert America's abundant coal resources to synthetic fuels. Because of the technical and economic risks involved, the sponsor, Great Plains Gasification Associates (GPGA), sought financial assistance from the Federal Government. In January 1982, the Department of Energy (DOE) provided financial assistance to GPGA in the form of a $2.02 billion loan guarantee under the authority of the Federal Nonnuclear Energy Research and Development Act of 1974. The loan guarantee was to cover approximately 75 percent of the project's construction costs; the remaining 25 percent was provided as sponsor equity.

The plant was constructed at a cost of $2.1 billion, under budget estimates and ahead of schedule. Gas production began on July 28, 1984,

initiating a one-year startup and checkout program. The plant was deemed to be in commercial service on August 1, 1985.

Synthetic natural gas sold by the plant is currently capped by the price of No. 2 fuel oil under a pricing formula approved by the Federal Energy Regulatory Commission in 1981. The formula was developed at a time when world energy prices were expected to continue their climb upward. But in the early 1980s, energy prices peaked and then began to decline. As a result, the Great Plains sponsors applied to the U.S. Synthetic Fuels Corporation in 1983 for additional federal financial assistance, including a restructuring of the DOE-guaranteed loan. In 1985, Secretary Herrington rejected a proposal that included an additional $720 million in federal subsidies and a loan from the default reserve fund totalling $673 million.

As the Secretary said at that time:

> *"[The additional subsidies] wouldn't provide assurance of long-term operation of the plant at a reasonable cost to the taxpayers and the nation."*

A 1985 DOE analysis indicated that under the "best case scenario," oil prices would have to rise to $160 per barrel by the year 2009 for the GPGA refinancing proposal to work. The plant could have resulted in a cost to the taxpayer of as much as $2.6 billion in federal assistance and tax credits over its lifetime.

Following the unsuccessful attempt to obtain additional federal support, GPGA defaulted on the guaranteed loan on August 1, 1985, the date the plant was declared to be in commercial service.

The Divestiture Process

On the day of the sponsors' default and withdrawal from the project, DOE took over plant operations and began the legal process of obtaining title to the facility. DOE, as guarantor of the loan, paid the outstanding amount in full and took title (to most of the project assets), by way of a foreclosure sale and marshal's deed, in July 1986. During 1987, litigation regarding the integrity of the foreclosure process and the enforceability of the Gas Purchase Agreements was decided in the Department's favor, clearing the way for the Department to move forward with the ultimate disposition of the project.

During the period August 1, 1985 through July 30, 1988, more than 177 billion cubic feet of synthetic natural gas was produced and sold; the plant's productive output was increased from less than 130 million cubic feet per day to 142 million cubic feet per day; operating costs were reduced by roughly 20 percent to approximately $3.00 per thousand cubic feet; a comprehensive study of potential by-product manufacturing and sales opportunities was commissioned; and a working capital reserve of approximately $140 million was accumulated.

The continued technical success of the facility, along with plant improvements either made or projected, made the Great Plains Coal Gasification Plant a marketable asset. After preliminary inquiries as to private sector interest in purchasing the plant, Secretary Herrington decided that DOE should use an investment banking firm to provide financial advice and assistance in the divestiture of the facility. Accordingly, in February 1987, Shearson Lehman Hutton, Inc. was competitively awarded a contract to provide the necessary assistance in achieving the following objectives:

1. Realize fair value for the project;
2. Transfer ownership of the plant to the private sector and thereby remove the federal government as a direct competitor of private industry in gas production; and
3. Encourage continued long-term operation of the plant to avoid disruptions to the local economy and to capture the benefits associated with extended operations.

Shearson provided a proposed marketing plan to DOE in May 1987. Receiving DOE's consent, Shearson developed a DOE-approved Descriptive Memorandum, which was distributed to prospective buyers in October 1987. Statements of interest were received in November and early December 1987. Due diligence briefings and plant visits were conducted in January and February 1988. Shearson transmitted a draft sales agreement to interested parties in February 1988, requesting firm offers in March 1988. Eight offers were submitted in March and a ninth in April.

After reviewing the offers, Shearson recommended that negotiations be conducted with three offerors: the Coastal Corporation, Basin Electric Power Cooperative, and Mission First Financial, the latter a subsidiary of Southern California Edison. Offers from these firms were determined to provide the best potential for the government to obtain fair value for the facility and the strongest commitments for continued plant operation.

During May 1988, Shearson met with these three firms to provide more detailed information on the terms that would be acceptable to DOE. The areas discussed included long-term continued operations, cash payment, limitations on the use of the Production Tax Credit, and sharing with the Federal Government of future revenues reflecting future appreciation in gas prices.

In June 1988, the Department entered into direct negotiations with the three offerors, culminating in the August 5, 1988 selection of the offer made by Basin.

Rationale for Selecting Basin

The offers submitted by Basin, Coastal, and Mission each contained the critical elements of commitment to long-term operations and price structure. None of the offers was clearly the best with respect to all elements or price components. Each offer was the best offer in at least one of the elements or price components, and therefore, the selection of the best offer for the

Federal Government was a complex decision. It required the weighing of various strengths and weaknesses of each offer, as well as considering a range of economic assumptions concerning inflation, future gas prices, costs of production, the appropriate discount rates, federal income taxes, and other variables. The Department analyzed a variety of scenarios with the view toward selecting those assumptions that it believed would most likely reflect future trends in these factors.

DOE's regulations prevent us from releasing details of unsuccessful offers without first obtaining the permission of the offeror. Initially after the selection was announced, both Coastal and Mission requested that we not disclose details of their offers. However, within the last week, both firms have approved the release of details pertaining to their bids. Therefore, we have included, as an attachment to this statement, summary charts of the different scenarios we used in comparing the financial components of each of the three finalists' offers.

In general, our comparisons show the following:

The offer submitted by Basin was the top offer with respect to commitment to long-term operation and waiver of utilization of the Production Tax Credit. Basin intends to create a subsidiary corporation, Dakota Gasification Company, to own and operate the project. The Dakota Gasification Company will waive all rights to claim the entire amount of the Production Tax Credit that could be available to the project.

The offer submitted by Coastal was the top offer with respect to the revenue sharing arrangement with the Federal Government and cash returned from the project. Coastal's cash offer was approximately equal to the net present value of the Production Tax Credit subsidy it intended to receive. The offer submitted by Mission was the top offer with respect to the cash provided to the Federal Government at closing. The amount of cash Mission offered at closing was, however, less than the net present value of the Production Tax Credit subsidy it intended to receive.

Taken in total, neither Coastal's nor Mission's bid represented the same composite value to the government over the life of the project as did the offer from Basin.

In examining the prospective financial value of each offer, the Department ran a series of complex and detailed computer analyses for each offer. Different combinations of assumptions were used in each analysis. For example, the Department assumed a project life through the year 2009, an inflation rate of 3 percent, and specific assumptions regarding plant performance, gas quality and production output. Then, a range of different discount rates and gas price scenarios was applied. For example, discount rates of 8.12 percent, 12.5 percent and 17 percent were used. A range of gas price scenarios was applied including:

(a) Shearson's estimates of gas prices which would typically be used by industry buyers of gas production projects;

(b) GAO estimates provided to DOE in late 1987 during GAO's analysis of the project; and

(c) an Energy Information Administration (EIA) estimate, adjusted to reflect additional years of plant operation beyond the current EIA projections and to incorporate provisions in the Gas Purchase Agreements.

The Department also assumed no changes to existing federal or state tax laws, and if revenues subject to sharing with the government were to be adjusted for Federal and State Income taxes, a factor of 40 percent was used in all years to reduce the gross revenues to the shared basis.

In each of the nine cases examined (with three price scenarios and three discount rates, there are a total of nine cases), Basin had the highest sum of the price components and thus represented the greatest economic value to the government, with the Coastal offer relatively close, and the Mission offer substantially lower than the other two.

Summary of Basin's Financial Offer

The Department did not announce a minimum sales price for the project prior to receiving offers. Rather, we followed the advice of Shearson to stimulate the maximum amount of competition possible among qualified buyers. This approach has succeeded. There was intense competition among offerors in the final offer stage, and we firmly believe that the offer submitted by Basin has created a "win-win" situation both for Basin and for the federal taxpayer.

The $1.8 billion of value to the government offered by Basin would be in "undiscounted" dollars, or dollars valued at the time they are received:

- Approximately $85 million would be received as an initial cash payment;
- Another $105 million would be returned from the project's cash reserve fund;
- Approximately $649 million could result from future profit sharing if energy prices follow General Accounting Office projections;
- $590 million would result from the waiver of certain federal tax credits available to the project; and
- $367 million would be received as federal income taxes.

Under the sales structure, the actual value of the agreement will vary with inflation and gas prices. Based on the Department's views of these factors and discount rates, the present value of the Basin offer would be approximately $600 million.

Basin's Commitment to Continued Operation

In addition, Basin, which owns a coal-fired electric power plant adjacent to the Great Plains project and which already shares both coal and water supplies with the synthetic fuel project, will commit to continued operation of the facility until the year 2009, as long as revenues exceed expenses on a cash-on-cash basis. Basin also agreed to commit $30 million to create a revolving line of credit to support the operations of the project until the

year 2009. The line of credit would ensure that expenses do not exceed revenues by virtue of the new owner's ability to draw upon the line of credit through the expected life of the project.

Coastal's offer committed to plant operations for 10 years so long as the sales price for the synthetic gas exceeded $3.00 per million Btus. Coastal would also have made available a $30 million line of credit to the project in the event the sales price is less than the cost of the gas sold, but in contrast to Basin's offer, the Coastal line of credit would be available only for four years, from January 1, 1992 through December 31, 1996. Mission indicated it would use prudent business judgment in assuring continued operations.

Basin's commitment to continued operation was also enhanced by an inherent incentive within its own power generating system. Because of excess generating capacity within the cooperative, if the Great Plains plant was closed, Basin may not be able to sell the power currently being bought by the plant or replace the energy revenues currently being received from the plant. If the project was to be shut down, the Basin system could experience a loss in net revenues from $37 to $45 million annually.

In short, Basin demonstrated superior commitment to long-term operation than either Coastal or Mission due to its financial commitment and natural

incentives, including its long-time involvement with the local community since the early 1960s.

Comparison with GOCO Operations

In carrying out the divestiture effort, the Department recognized that returning the Great Plains Plant to the private sector had an intrinsic value that could not be easily quantified. Such factors as local stability, reduction in future federal liabilities, potential expansion of commercial products, etc., are elements uniquely associated with private ownership. Nonetheless, the Department did assess whether the successful offer would have a greater value than that which could be obtained from operating the plant as a government-owned, contractor-operated facility (GOCO).

The Department compared the offers with a range of nine cases which assumed the Federal Government would continue to own and have a contractor operate the project. The General Accounting Office (GAO) published a report on June 10, 1988, concerning the value to the Federal Government if DOE were to operate the project as a GOCO. DOE developed independent financial values, using both the GAO price scenario and discount rates, with some modifications to the assumptions GAO utilized (the primary modifications to the GAO assumptions were in regard to: 1) sale date, 2) production rate, 3) inflation rate, 4) cost assumptions, 5) slight differences in gas prices, and 7) some changes to the model itself) and the other discount rates and price scenarios outlined above. These GOCO calculations were considered reasonable representations of the effects of continued federal ownership, although it

must be noted that DOE has not developed a specific plan for long-term Federal administration of the project.

In all the cases using Shearson price scenarios, the offers from both Basin and Coastal had a higher value than the GOCO value. Using EIA-based price scenarios, the Basin and Coastal offers exceeded GOCO values for the 17% discount rates, and the Basin offer also exceeded the GOCO value for the 12.5% discount rate. In the cases using GAO price scenarios with the three discount rates specified earlier, none of the offers had a higher value than the GOCO value.

In our opinion, the EIA price scenario, with our modifications, using a 12.5% or 17% discount rate, properly reflects the most likely future trends and risks in these areas. For this reason, the Department determined that the Federal Government could obtain the best financial value by selling the project to Basin Electric.

By-Product Development Potential

Transferring the project to the private sector has a positive benefit apart from the economic analysis we conducted. For example, it opens the opportunity for substantial by-product development. With appropriate capital investment and an aggressive marketing approach, there are ways in which the by-products of the plant could be converted to valuable chemicals and other commodities. The Department has commissioned a $1.5 million series of studies

on by-product development potential which will be completed by January of next year. These studies will be turned over to Basin for consideration of by-product development efforts.

Retaining the plant as a federal asset would seriously impair the project in achieving its full by-product potential. The Federal Government is ill-equipped to aggressively pursue these marketing opportunities. Even if the government chose to expand its presence as a competitor in commercial markets such as the chemical industry -- and we steadfastly believe that it shouldn't -- the federal management system is not oriented toward making these types of commercial decisions in a timely manner. Budgeting, procurement, personnel and other restrictions would limit the government's effectiveness in obtaining full value of by-products development.

A private owner, like Basin, can react quickly, enter into long-term contracts, and develop marketing partnerships with other commercial interests. The Federal Government can't, and shouldn't, undertake these types of commercial activities.

Status of Negotiations with Basin

Having concluded that the offer made by Basin will enable DOE to achieve its stated objectives, DOE is now negotiating with Basin to conclude the final Asset Purchase Agreement. Negotiations should be concluded within the next two to three weeks. After completing the Asset Purchase Agreement, DOE and Basin

will immediately move toward closing, including the transfer of title to the project to Basin. At this point, there would appear to be no major stumbling blocks to concluding the Asset Purchase Agreement.

Local and Regional Concerns

The Department is aware that a prospective transition in plant ownership affecting the lives of nearly 900 employees and their dependents has raised concerns and uncertainties among many residents of North Dakota. We have entered into negotiations with Basin with the intent to ensure as smooth a transition as possible. We recognize the competency of the existing workforce at the plant, and our view is shared by Basin. But we have also approached the current negotiations with the full recognition that, for the plant to achieve its full technical and economic potential, Basin must be given the flexibility to make key management decisions.

Several employee-related issues have been raised since the August 5, 1988, announcement. In our negotiations with Basin, these high-priority issues have been placed early on the agenda since their resolution is important to the stability of the current workforce.

With respect to the level of employee benefits that will be continued upon transfer of plant ownership to Dakota Gasification Company, staff at the Department have been reviewing the different benefits currently offered to employees. The Department originally approved the benefit package offered by

ANG, the project administrator, and has continued to review and approve any proposed revisions to the benefits in accordance with the Project Administration Agreement (under which the plant is operated). The Department has assumed certain obligations under this agreement and will continue to abide by these obligations.

Basin has assured us that no major changes will occur during the transition in ownership, which could take from six months to one year. During that time period, Basin will be reviewing the staff situation at the plant with a view towards improving efficiencies and consolidating certain functions. Basin has further assured us that all employees who are retained will receive credit towards accruing various benefits for the years of service at the plant, whether he or she is employed by one of the subsidiary corporations of Basin or is brought into Basin.

Regarding severance benefits, we anticipate that the actual number of employees that will be terminated because of the transition will be a very small portion of the total workforce currently employed at the plant. Nonetheless, the Department is obligated to ensure that any employee whose job is terminated and is not reemployed either by the subsidiaries created by Basin to own and operate the plant or by Basin itself will receive all severance benefits to which they are currently entitled.

The Department is also evaluating a request from ANG to allow any participant in the savings and retirement plans whose employment is terminated

to vest immediately regardless of years of service that he or she may have currently accrued in each plan. We expect to make a final decision concerning a vesting amendment within the next two to three weeks, following our review of the current number and status of plant personnel covered by these plans.

Conclusion

The Department has evaluated what we believe to be the most crucial elements in selecting a purchaser, both in terms of financial value to the government and an emphasis on a commitment to long-term operation. Congress has also expressed guidance concerning the importance of long term operation to the nation, its taxpayers, and the local economy of North Dakota. For these reasons a strong commitment to long-term operation, evidenced by 1) a prospective purchaser's willingness to put some of its own capital at risk to ensure the continued operation, 2) a prospective purchaser's contractual commitments to long term operations and 3) any natural incentives a prospective purchaser may have, was a critical element in selecting a purchaser.

In addition, the Department was mindful that the federal treasury had once been extended on behalf of this project and, ideally, taxpayers should not once again bear the burden of financing this project. Therefore, waiver of the right to claim the Production Tax Credit was also an important consideration. Another factor was the value of the successful offer to the government in comparison with continued government ownership.

The offer by Basin Electric Cooperative meets or exceeds the Department's requirements in all respects. Transfer of title to Basin will enable the Department to achieve its stated goals of fair return to the taxpayer, removal of the government as a direct competitor in the gas production business, and continued long-term operation of the plant.

That concludes my testimony, Mr. Chairman. I will be pleased to answer any questions the Committee may have.

Great Plains Offers -- Gross Value Summary

GAO Price Scenario: Undiscounted

(Millions of Dollars)

	Coastal	Basin	Mission
Cash	131	85	170
Cash Returned	120	105	120
Revenue Sharing	751	649	555
PTC Waived	454	590	124
Fed. Income Tax	317	367	370
Total	1773	1796	1339

GAO Price Scenario: 8.12% Discount Rate
(Millions of Dollars)

	Coastal	Basin	Mission
Cash	131	85	170
Cash Returned	120	94	102
Revenue Sharing	321	251	247
PTC Waived	249	369	63
Fed. Income Tax	92	127	108
Total	913	926	690

GAO Price Scenario: 12.5% Discount Rate
(Millions of Dollars)

	Coastal	Basin	Mission
Cash	131	85	170
Cash Returned	120	94	102
Revenue Sharing	219	165	175
PTC Waived	186	299	48
Fed. Income Tax	53	81	59
Total	709	724	554

GAO Price Scenario: 17% Discount Rate
(Millions of Dollars)

	Coastal	Basin	Mission
Cash	131	85	170
Cash Returned	120	94	102
Revenue Sharing	156	113	130
PTC Waived	141	247	37
Fed. Income Tax	33	55	33
Total	581	594	472

EIA Price Scenario: 8.12% Discount Rate
(Millions of Dollars)

	Coastal	Basin	Mission
Cash	131	85	170
Cash Returned	120	82	102
Revenue Sharing	196	183	150
PTC Waived	239	369	63
Fed. Income Tax	40	55	45
Total	726	774	530

EIA Price Scenario: 12.5% Discount Rate
(Millions of Dollars)

	Coastal	Basin	Mission
Cash	131	85	170
Cash Returned	120	82	102
Revenue Sharing	125	113	95
PTC Waived	178	299	48
Fed. Income Tax	5	20	6
Total	559	599	421

EIA Price Scenario: 17% Discount Rate
(Millions of Dollars)

	Coastal	Basin	Mission
Cash	131	85	170
Cash Returned	120	82	102
Revenue Sharing	83	74	64
PTC Waived	134	247	37
Fed. Income Tax	(10)	3	(12)
Total	458	491	361

SHEARSON PRICE SCENARIO: 8.12% DISCOUNT RATE
(MILLIONS OF DOLLARS)

	COASTAL	BASIN	MISSION
CASH	131	85	170
CASH RETURNED	120	74	102
REVENUE SHARING	31	24	27
PTC WAIVED	239	369	63
FED. INCOME TAX	(40)	(26)	(49)
TOTAL	481	526	313

SHEARSON PRICE SCENARIO: 12.5% DISCOUNT RATE
(MILLIONS OF DOLLARS)

	COASTAL	BASIN	MISSION
CASH	131	85	170
CASH RETURNED	120	74	102
REVENUE SHARING	27	24	24
PTC WAIVED	178	299	48
FED. INCOME TAX	(34)	(22)	(42)
TOTAL	422	460	302

SHEARSON PRICE SCENARIO: 17% DISCOUNT RATE
(MILLIONS OF DOLLARS)

	COASTAL	BASIN	MISSION
CASH	131	85	170
CASH RETURNED	120	74	102
REVENUE SHARING	25	23	22
PTC WAIVED	134	247	37
FED. INCOME TAX	(28)	(17)	(36)
TOTAL	382	412	295

Senator CONRAD. Thank you very much, Mr. Secretary, for that testimony. Again, I want to commend you for the job that you have done. I think it is absolutely first-rate, a very difficult set of interests to be balanced in making this sale. And as I have examined the structure of the sale itself, it seems to me that you have walked that fine line extremely well. Let me pursue a number of questions that have arisen about the transactions so that we can lay on the record the answers.

First of all, a question has arisen as to whether or not the successful bidder had, in fact, the best bid. As you know, there have been some who indicated that they felt other bidders had a stronger bid. Under all of the scenarios that you provided under all of the assumptions, price assumptions, discount assumptions, pricing assumptions, under any one of those, Basin has the strongest economic bid. That is, their price is the highest in terms of return to the Federal Government in addition to having the strongest commitment to long-term operation of the facility. Is that correct?

Mr. WAMPLER. Yes, that is correct, Senator.

Let me say, though, that we felt that we had three very strong bids. But in all those cases, the nine cases that I mentioned, Basin did have the strongest bid in terms of economic value. We also felt that their commitment to long-term operations was better than the other two bidders.

Senator CONRAD. Could you go into just a bit more the difference between the top two bidders in terms of long-term operation of the facility? I understand that Basin had a 20 year commitment, that the second strongest bid, which would appear to be Coastal's, had a 10 year commitment. Is that correct?

Mr. WAMPLER. That is correct. The Basin commitment was a 20 year commitment, as long as operating revenues exceeded expenses on a cash-to-cash basis. And that is important. Coastal's bid was to operate for 10 years, as long as the SNG floor price of $3 per million Btus equalled or exceeded the sales price.

They also agreed, from January 1, 1992, until December 31, 1996, to make available a line of credit of $25 million, in the event that the sales price was less than the cost of gas sold. I'm sorry. Let me correct that. That was increased on the last day of bidding to $30 million.

Senator CONRAD. All right. Let me pursue another line of questioning that involves the composition of the various trust funds because I think there is perhaps some confusion as to the composition of the trust funds.

As I understand it, there are two trust funds that are being provided by the Department. One is a $30 million trust fund to deal with certain air quality questions that remain associated with the plant. Could you please describe how that trust fund will function from your perspective?

Mr. WAMPLER. Okay. The trust fund, by the way, has been set up for some time.

There is a $30 million trust fund, in an interest bearing account in North Dakota, that is to be used to correct the emissions problem at the plant. The plant is currently out of compliance. It does not have an operating permit, and it is out of compliance with the construction permit. The reason for that, I might add—and I think

is a very important reason—is that we simply guessed wrong, in my opinion, on the Best Available Control Technology when the plant was built. The plant is not a dirty plant. It is one of the better plants in the State of North Dakota. It has never been out of compliance with the Clean Air Act.

However, to try to get the plant permitted, we set aside a $30 million trust fund to be used to technically fix the plant. Now, the trust fund will be drawn upon by Basin to do whatever modifications are required to get the plant in compliance and an operating permit issued. Money that is left in that trust fund—we expect that it will not take the entire amount—will be returned to the Treasury.

Senator CONRAD. Under whose control will the $30 million be? In other words, who will make the decisions as to what fixes are made to the plant?

Mr. WAMPLER. We have agreed to let Basin take the lead, with the State of North Dakota Health Department in determining a fix. The trust fund will be controlled by the trustee with approval for expenditure of the funds by the Department.

Senator CONRAD. Well, let's go through this again. I think this is an important point.

In your view, a trustee would be named and the Department would have the final say over what was done, but Basin would take the lead in making recommendations?

Mr. WAMPLER. That's true. We would allow Basin a good degree of flexibility to determine what the best fix would be to the plant.

I think it is important to recognize that Basin has some flexibility that probably no other bidder brought to the table by owning the adjacent power plant and being in the local area to work on this problem. They are uniquely qualified to do that. So, we would allow them proper flexibility, but we would also ensure that the money is spent for that fix and not for something else.

Senator CONRAD. Well, let me pursue this a bit further because I think it is an important question that people will want very clear in their minds, when they make a judgment on the sale, the $30 million which will be under the control of the trustee.

So, for example, we have a new administration, and the new administration sees a pot of money out there and says, well, you know, we only think $10 million really is needed to take care of this facility. And so, Basin, even though are the ones that have to operate this facility, we only think you need to spend $10 million to fix up this problem, and we want the $20 million returned, and we're not going to approve any more than $10 million. Could that happen?

Mr. WAMPLER. It is my understanding from legal counsel that it could not happen the way the trust fund has been set up. The monies will be there. The $30 million will be there irrespective of a new administration and whatever decision they might make.

Senator CONRAD. But if I heard your previous testimony correctly, you are saying that DOE would have the final sign-off. And if DOE under a new administration said, gee, we just don't think the $30 million is necessary for this fix, we're only going to approve Basin's recommendations for $10 million of fix, we're not going to go for another $30 million, where does that leave us?

Mr. WAMPLER. Well, I don't think that could happen because one thing that I didn't mention—and that is very important—is that the State of North Dakota is the one that would approve Basin's approach to the permitting process. They would have control over it, and the Department, while they could make a determination that the money was being spent for the fix, would be limited in what controls they could have over the way the $30 million was spent.

Our only concern is to make sure that the money is spent properly and not to meddle in the technical fix that Basin and the State determine to be the best technical fix. That is the way the trust fund is set up.

Senator CONRAD. Well, let me just say by way of clarification that I have every confidence in Allen Wampler. You have demonstrated over and over that your word is good. What I am worried about and what others are worried about is what happens if we have someone succeed Allen Wampler who decides that they are going to make their career on returning $20 million to the Federal Government by refusing to have a full fix or as good a fix as we can get for the problem that exists and refuse to approve the expenditure of funds to do what Basin and the State of North Dakota believe are necessary.

Mr. WAMPLER. Well, we are in the process of completing some very well-defined disbursement processes. I will take another look at this issue, Mr. Chairman, to make sure that controls are set up in such a way that the money will be there for the fix.

Senator CONRAD. I would appreciate that, and I think everybody who is involved would appreciate that.

I also think that in terms of the new owner, that we want to make sure they have the maximum flexibility to use the best available technology in light of the most recent information; that is, that they don't get locked into a fix and a technology that may be less relevant as time goes along. And so, I hope we establish this fund in a way that it is fenced in a very clear way that we know that money is going to take care of air quality problems that exist and we know that somebody can't come along at a later date and go back on what has been the clear commitment of the Federal Government.

And again, I would commend you for setting up this trust fund in the first instance. I would just hate to see it be lost sight of after you perhaps have moved on to a higher position.

The third—well, let me go one other trust fund question and that is there is a $75 million trust fund that you have established in anticipation of price weakness periods. And that $75 million, if it is drawn upon, would have to be repaid by Basin Electric. Is that correct?

Mr. WAMPLER. Yes, that is correct.

Senator CONRAD. Could you describe just briefly under what conditions that $75 million trust fund that you are establishing could be drawn upon?

Mr. WAMPLER. Mr. Chairman, with your permission, I would like for Mr. Oliver to answer that since he was the one responsible for negotiating those provisions.

Senator CONRAD. All right. Welcome, Mr. Oliver.

Mr. OLIVER. Thank you, Mr. Chairman.

Basically the $75 million trust fund can be drawn upon based on two time periods. For the first six years after closing, Basin can draw upon the trust fund up to $75 million under two scenarios. One, if the price of No. 2 fuel oil causes the revenues from the plant to be less than the control production costs, they can draw on that $75 million for six years after closing. At the end of six years——

Senator CONRAD. Could I just interrupt you right there? Would they be required to call on their own $30 million line of credit first, or could they go to the $75 million trust fund first? Or is there no specific arrangement with respect to which of those funds would be called upon first?

Mr. OLIVER. At present, the $30 million loan fund from Basin to Dakota Gasification Company can be loaned at any time and for any number of reasons, including cash shortfalls. On the other hand, the $75 million trust fund can only be borrowed upon in the narrow circumstances that I mentioned earlier, when revenues drop below the contract production costs or if there is a termination of the gas purchase agreements.

Senator CONRAD. All right.

Mr. OLIVER. The second 4 years after closing, which would be 10 years, the remaining $25 million in the trust fund can be drawn on if the price of the top 10 percent of gas drops to a point where the revenues coming into the plant are less than the contract production costs. So, after a six year period, $50 million will be returned to the Department and an additional four year period where $25 million will be available to the plant.

Senator CONRAD. All right. To simplify this for my sake, the first six years—at the end of that period, $50 million of the $75 million will be returned to the Federal Government.

Mr. OLIVER. That is correct.

Senator CONRAD. And then the remaining $25 million is available for the second phase which is four years in duration.

Mr. OLIVER. That's correct.

Senator CONRAD. So, we've got 10 years of coverage of that $75 million. The first six, $50 million is potentially returned to the Federal Government.

What happens if that fund is drawn on in the first six years for the full $50 million? Is Basin obligated to repay the $50 million at the end of the six years even though the fund has been drawn upon?

Mr. OLIVER. Mr. Chairman, during the first six years, Basin can draw the entire $75 million. But assuming they do not withdraw the entire $75 million, they will have $25 million of that $75 million remaining. If Basin has drawn the entire amount after six years, then the repayment obligation will be there during the term of the gas purchase agreements, which is through the year 2009.

Senator CONRAD. All right. They would be required to pay back what they have drawn upon at the year 2009?

Mr. OLIVER. No, through the year 2009.

Senator CONRAD. It would be amortized over the length of time remaining?

Mr. OLIVER. That is correct.

Senator CONRAD. That I think clears up a question as it relates to the composition of the trust fund.

Let me get to the next significant question. And these are not in order of importance. I want to emphasize that.

The next question that I have is the status of the siting permits. As you know, Mr. Wampler, there are really two that are most important to us. One is condition number 5 on the county's certificate of zoning compliance requires the plant owner to reclaim the plant site to its original conditions and productivity if the plant closes down.

And the second siting requirement that I direct your attention to is condition number 20 in the Public Service Commission's certificate of site compatibility. That requires ANG to pay for any adverse impact associated with the plant and provides for a grievance procedure for any person, agency or entity to take its case before the PSC which would decide how the impact should be handled.

Those two items, condition number 5 on the county's certificate, condition number 20 on the Public Service Commission's certificate—where does the responsibility now lie for compliance with those siting provisions?

Mr. WAMPLER. Well, let me first say, Mr. Chairman, we were very surprised when the local community came out with these concerns. We tried to focus our entire bidding process on the maximum long-term operating commitment rather than worrying that the plant might be shut down.

In any event, let me set the record straight on this issue. There has never been a commitment from any of the previous owners of the project fund the reclamation cost in the event that the plant shut down. The reclamation obligations that exist have always resided in ANG, and to my knowledge, the parent corporation of ANG has never accepted any of these responsibilities. Indeed, the purpose of creating a subsidiary corporation is often to shield the parent corporation from these kinds of liabilities.

Senator CONRAD. Well, let me stop you there if I can because I don't want to lose this point. The local communities believe that somebody has been responsible for reclaiming this site in the case of abandonment. Are you saying that they were mistaken?

Mr. WAMPLER. Well, it's our understanding that the permits have all been issued to ANG, and ANG is responsible for the reclamation cost. ANG, as a subsidiary corporation is, if you will, a shell corporation.

Senator CONRAD. What I hear you saying then is—and correct me if I am wrong—that ANG, the shell corporation, the subsidiary or the parent, is the one that has been responsible for meeting these obligations.

Mr. WAMPLER. Only in the instance that after the Department took over the plant by reason of default, has the Department had some responsibilities for reclamation, if the project were not mothballed. We would have had, if it was torn down, to return it to the original contour and original vegetation.

I think we have to make one important point in all of this. The worst case that I can ever envision for this project, which I don't believe will occur because of the commitment made by Basin and the trust funds we have in place—is that the project would be

mothballed until such time as would become economic again. That kind of investment sitting there is simply not going to be torn down. In that case, the costs involved would be those costs to maintain the project through a period of shutdown, and they certainly would not, in magnitude, anywhere approach the cost of reclamation to the point of how the site existed prior to construction.

I just don't think that it is realistic at all to even consider that plant would be shut down, torn down. Again, the worst case scenario is one in which the plant could possibly be mothballed, and I do not think that will happen.

Senator CONRAD. In the case of a shutdown—and I would agree that all of the effort has been expended to try to prevent that from happening. In the event of a shutdown, would that trip the conditions that were in the county siting permit or in the state siting permit, or did they require a more dramatic level of abandonment?

Mr. WAMPLER. Well, it's my understanding, that if we're talking about the certificate of site compatibility, that requires a funding of socioeconomic costs—it is my understanding that that relates to construction, operation and maintenance of the project and not to a temporary shutdown situation. And again, the same scenario I described previously would exist: Any obligations that exist under that certificate reside now with ANG. If the plant were to be shutdown at this point in time, to some extent the Department would be obligated to pay the costs of ANG, and the Department may have some responsibilities with these costs as well.

But, again, I think we have to bear in mind that we don't believe that, in any case, the project will be shut down with the commitments that we have. In the worst possible case, we would be looking at a temporary mothballing situation.

Senator CONRAD. And if there were a temporary mothballing, who would then be responsible? Would there be any responsibility in your reading of these permits?

Mr. WAMPLER. Well, there wouldn't be any responsibility for reclamation during mothballing, but we have estimated in the past that it would probably cost $50 million or approaching $50 million to put the plant in a mothball condition, and the——

Senator CONRAD. Fifty million?

Mr. WAMPLER. Fifty million. And the owner of the project would be the one that would be, obviously, responsible for doing that.

Senator CONRAD. And what about socioeconomic impact associated with the mothballing?

Mr. WAMPLER. That is one of the items, Mr. Chairman, that we are reviewing, and we will further review that and be glad to submit something for the record on that. We simply don't know at this point in time.

[The information referred follows:]

INSERT FOR THE RECORD
SOCIOECONOMIC IMPACT ASSOCIATED WITH MOTHBALLING

As previously stated, the Department of Energy has concentrated its efforts on ensuring continued long term operation of the plant rather than studying the impacts of closing the plant or mothballing the plant. The structure of the proposed divestiture is such that there is only a small likelihood of shutdown or mothballing. The socioeconomic effect of mothballing would be the combined result of the technical option selected and the indirect effects. A 1985 analysis for the Department by Fluor Technology Inc. identified a range of technical options, including the following:

	Short-term "Warm"	Long-term "Cold"
Transition Period	5 months	9 months
Duration	3 months	12 months
Restart Period	Short-term	6 months
Approximate Employment Level*	100	50

* Estimate derived from standby operating costs.

Thus direct employment would be reduced 90-95 percent from the current operating level.

The 1985 report of the Governor's Task Force estimated an annual economic loss of $500 million from a total plant shutdown. The equivalent amounts for the two examples outlined above would be $75 million to $300 million, after adjusting for the fact that ANG and contractor employment today (895) is about 65% of the level used by the Task Force (1373) before construction was completed.

This range is likely to be overstated because it does not account for the flexibility which Basin and other local entities will have in the following areas:

--Retention of employees in non-maintenance functions in anticipation of resuming operations.

--Continued operation of the mine and sale of power to other customers.

Each of the factors would affect the full range of indirect effects (public assistance payments, taxes, and the like) which accounted for a significant proportion of the total effects predicted by the Task Force. In summary, the effects on North Dakota of mothballing will be largely determined by the technical and business decisions made by public and private bodies within the State.

Senator CONRAD. All right. Let me try this on you and see what your reaction is. It would seem to me that you have a situation in which the original partners had obligations. In order to get the siting, the county had certain requirements, the state had certain requirements, the original partners agreed to those requirements. Upon the default of the original partners, that responsibility passed to DOE. DOE became the titleholder. DOE assumed those responsibilities.

DOE has now structured a sale, and again I think done an extremely professional job of structuring that sale. Everybody has bid on the same basis; that is, everyone that bid here bid on the basis of a shell corporation to shield the parent I assume. Would that be a correct reading in your analysis? Everybody bid on the basis of a shell corporation?

Mr. WAMPLER. Yes, everybody did bid on the basis of a shell corporation. As to what their motives were, I really can't speak to that.

Senator CONRAD. I think we could probably be safe to assume that. I feel safe in assuming they did that to shield the parent corporation. And the shell corporation takes on the obligations that the previous shell had, ANG.

To whatever extent in this bidding process responsibilities fall by the wayside, it would seem to me there would be a call back to DOE to whatever ever extent the original responsibilities are not met by the succeeding shell corporation.

Mr. WAMPLER. Well, I think you have to look at DOE as the holder of a piece of property that DOE received through foreclosure. And if you compare DOE to the bank in this case, I don't know of any case that a bank, upon transferring a piece of property or selling a piece of property that came to it by way of foreclosure, would retain any responsibility for that. So, if you look at it on the business-to-business kind of basis, I think you come to that conclusion.

Now, if something has happened during the past three years that has damaged the environment or whatever at the plant, while it has been under the control of DOE, it could be said that DOE would have the responsibility for that.

But, again, 99 percent of our effort has been put into the premise that the plant is going to continue operation and we hope that the plant will never be faced with that problem.

Senator CONRAD. We are all very hopeful of that, and again I think you are quite right. The effort has been made to assure long-term operation. And I think we are talking about a worst case scenario that has relatively low likelihood of occurring. But the fact is there is risk associated with this project. We all know that.

And I think you have done absolutely as good a job as could be done to minimize that risk. You have set up the trust funds. You have the shell corporation that is certainly because of the trust funds a stronger shell than what we have had before. Would you agree with that assessment?

Mr. WAMPLER. Yes, I would.

Senator CONRAD. But again, the community is wondering what happens in that worst case scenario. And I think they deserve to know what happens. And I understand it may be difficult to give a

comprehensive answer today, but at some point I think we have to find some way of answering that question in the event a worst case scenario developed.

A worst case would be that this plant, in fact, was abandoned. Dakota Gas—we would, of course, look to them in the first case to meet those obligations. It does seem to me, though, that in the event their assets were not sufficient—and, of course, the assets of Dakota Gas will be the plant itself, the capitalization, the trust funds, all of those things would be looked to—the mine.

But after we have gone through that and there still aren't sufficient resources, it would not seem implausible to me that we should look back to DOE who structured this sale and who, in fact, took back the obligations that they had, took back all of the obligations that existed for that plant at the time of default.

Let me ask you it this way. Did DOE at the time of default be put in the position of taking on all of the obligations that existed on the part of the original partners?

Mr. WAMPLER. Yes, at that time we did.

Senator CONRAD. And to whatever degree you now parcel out responsibilities that are less than those that you accepted, wouldn't common sense tell you that it would be appropriate for local authorities and state authorities to look to you? You have handled the sale. You have structured the terms and conditions of the sale. If you put out there less of a responsibility than you inherited, it would seem to me it would be appropriate for us to look to you.

Mr. WAMPLER. Well, Senator, unless I'm misunderstanding you, we are not putting out less of a responsibility. We are selling the plant intact in its entirety. I guess you could make the case that the Department of Energy has a larger bank account. We certainly recognize that. But, again, we feel that we have done everything that is humanly possible to put the plant on firm footing and produce enough cushion in case gas prices do go down further than we anticipate.

We also know that the plant has operated to this point, technically, in an excellent fashion. We don't expect that to change. There is some very good talent there that has kept that plant operating. And so, we think that is the very, very worst case scenario, and it is not likely to happen at all.

If you are looking at mothballing costs, which we consider to be the worst case scenario, it is within our prerogative to look at remaining trust funds, for example, as a possible use for mothballing. That is a decision that we would have to ponder.

Senator CONRAD. Let me acknowledge that Senator Johnston, Chairman of the Energy Committee, is here and Senator Domenici, both of whom have shown great interest in this facility. As you know, Senator Johnston was just in North Dakota and paid a visit to the facility. And I would be happy to yield to him at this point if he would like to ask questions of the witness.

The CHAIRMAN. Well, thank you very much, Mr. Chairman.

Mr. Secretary, I want to join with Senator Conrad in commending you for your work on this. Frequently we pass legislation up here and put it out to the Department and we don't recognize what our intent was by the time the Department finishes with it. But in this case, I must say you have done a fine job in carrying out what

our intent was, which was to transfer this by sale by bids as a high priority to keep the plant operating. And we think you have done that very well here.

It seems to offer the very best promise—not free of all risk, but the very best promise possible—to keep it operating and to make eventually a profit and to reclaim the profits—I mean, to reclaim the investment of the United States in this project. I think it is important that when the United States goes into a project and puts not just its faith and credit in a financial basis, but puts its faith and credit as one who sponsors an endeavor, that it is important to see it through to the best extent we can.

And I think that is what your proposition here does. It tells to the people of North Dakota who have invested their monies and their time and their efforts and the hopes of their communities and the jobs of thousands of people that the Department of Energy means to see it through, to keep it operating if at all possible. And it seems to me this offers a very good promise that that will happen. We can't be sure, but we think it is very, very probable and the best chance that that will happen.

So, I want to commend you. I don't want to prejudge all of the details of the contract because that is the purpose of this hearing. But it seems to me that that is an excellent job, and you are to be commended for having done that job.

Mr. WAMPLER. Thank you, Mr. Chairman.

Senator CONRAD. Senator Domenici?

Senator DOMENICI. Thank you very much, Mr. Chairman.

Clearly, Senator Johnston and I go back to days when the projections were around that oil would be worth $160 a barrel by 2006 or 2008. And we were part of the putting together of the big energy package, including the U.S. Synthetic Fuels Corporation. The private sector, as I recall, was out front on this plant, before we got the Synthetic Fuels Corporation going, and then it ran into trouble and was bailed out through another DOE program not the Synthetic Fuels Corporation. But in any event, it was built and started producing.

My recollection is that we wanted through the synthetic fuel incentives—by the corporation and the DOE program—to get some plants on board, on stream in the United States for two reasons: obviously to produce the product; but secondly, we wanted to learn and develop the infrastructure capability because in those days we could see the economic viability of normal synthetics like this one with old technology that had been proven up by both the South Africans and the Germans.

And when we started that, obviously the economics were terribly important. But obviously there was a lot of concern about the environmental degradation that might even ensue if we had a series of major synthetic fuel plants in the multi-billion dollar range. We were supposed to learn from this.

And so, might I ask, Mr. Secretary, while we are trying to get out from under this and transfer it to the private sector, will you be able to have some residual knowledge for the energy policy formation for the country that we can take out of this plant like—if you started from scratch using the information and using that technology, what is the actual floor or bottom price of natural gas

in order to justify that kind of plant? Have we analyzed the environmental situation so that we could or would be able to abstract out from this kind of plant what the environmental problems were and have learned something from it?

Mr. WAMPLER. Yes, Senator, I think we have learned a great deal from this plant. We have a good basis for determining economic cost of constructing such a plant. And if you look at South Africa's experience with their three plants now, as they construct the plants, they are doing it much more rapidly. They are doing it cheaper because of their experience with the first and second plant.

I think we have provided ourselves a good economic basis. We have had a great deal of experience in debottlenecking that plant, and the plant is producing at around $3 per million Btu's now which is not bad at all. Nobody ever predicted the plant would do that.

Senator DOMENICI. Is that everything or just the operating cost? Would that be the actual——

Mr. WAMPLER. That's the operating cost. That's not amortizing the debt, obviously. But nobody thought that was really possible with the plant.

We are learning daily about the environmental challenges at the plant. We are learning about possible fixes for those. So, there is a great deal that has accrued to the government and the public from that plant. And I would expect that would continue to accrue over the next 20 years of operation or hopefully longer for that plant. And so, we have learned a great deal from it.

Senator DOMENICI. Well, Mr. Secretary, let me just ask this question. If it is $3 a million Btu's for operating cost, can somebody tell the committee, including cost of construction, under a couple of reasonable scenarios on costs of money, what the actual cost in dollars per million Btu's is? Do we know?

Mr. WAMPLER. We can get you that information. We have that information, yes, sir.

Senator DOMENICI. Do you know today? Somebody told me it's $7.

Mr. WAMPLER. It is probably a little bit less than that. It is probably in the $6 range, but $6 to $7 is a reasonable figure.

Senator DOMENICI. And what is deregulated natural gas selling for in the United States now?

Mr. WAMPLER. Well, there are some take-or-pay contracts out there that I've seen as high as $6. Perhaps there are some higher than that. Of course, there are some, obviously, a lot lower than that, about $1 or $1 and a half.

Senator DOMENICI. Six dollar take or pay are mostly in court. [Laughter.]

But if it is close to $7, then at least we know for this technology, operation and maintenance and investment, that is what it would be. I assume then if you could put that down in some form, that we could get technology experts to begin to look at with new technology where we might be. Obviously, we can do it cheaper, couldn't we today? South Africans are going to do it cheaper, aren't they?

Mr. WAMPLER. We certainly could, I think, with the experience we have gained with that plant.

The real importance of the plant is that we know that we can build a plant in this country. We know that it works after we build

it and this one worked far beyond design specifications. That is the real value of it.

Senator DOMENICI. I want to join Senator Johnston in commending you. I don't know all of the details. But I think essentially you are doing what we would want you to do. We surely would want to be reasonable. If that plant is going to continue to operate, we want to see to it that that can take place.

I want to state to the Chairman my concern is that we learn as much as we can from this. I see no change in the American situation from the day we sought energy independence. We are now at $40 billion worth of imported oil. And we have coal, uranium, tar sands, all kinds of alternatives, and we aren't using any of them because it won't do that with oil at $14.86 a barrel, which is the price I think about four days ago. Is that not right?

Mr. WAMPLER. That is close. It is below that.

Senator DOMENICI. You can't produce natural gas. You can't produce liquid fuels or anything close to that. And so, we sit happy in perpetuity.

And I just think we have to find some policy that moves us in this direction. And I think liquefaction has to be part of it as long as America is using 70 percent of its energy for transportation. Clearly, we have to find some alternatives.

Thank you very much, Mr. Secretary.

Senator CONRAD. I just want to say for the purposes of sharing with my colleague, who I also serve on the Budget Committee with, Allen Wampler has done in my judgment an absolutely first-rate job. And it would be hard to find a public servant who has done or who could have done a better job in structuring a sale that protects the taxpayers' interest and gives you the best opportunity for the plant to continue long-term operation.

We have spent a great deal of time studying the structure of this sale. And he has done an absolutely first-rate job. Now, we are going to have a change in administration soon, and if it goes our way, we would like to see Wampler stay. And if it goes your way, we would like to see Wampler stay. [Laughter.]

Senator DOMENICI. Well, he can't lose. [Laughter.]

Senator CONRAD. Well, after that endorsement, he is probably cooked. [Laughter.]

Let me go back to questions of air quality because I think it is very important. These are questions that are high in the mind of the community and the State of North Dakota.

When this plant was originally contemplated, the partners told the state that they could expect a level of 1,340 per day on the sulfur emissions, and we are now operating at perhaps three times that. Is that roughly correct?

Mr. WAMPLER. That is roughly correct.

I think it is also important that we note that at the time that the plant was under construction permit, that the technology itself was something that the Environmental Protection Agency agreed to. I think it was a very bad estimate on everybody's part.

Senator CONRAD. Well, the commitment was to use best available technology. Correct?

Mr. WAMPLER. That is correct.

Senator CONRAD. And the fact is that the 1,340 was an estimate of what best available technology would do.

Mr. WAMPLER. That's correct.

Senator CONRAD. That proved to be incorrect.

Mr. WAMPLER. Right.

Senator CONRAD. Because best available technology was used.

And now the question is what would best available technology today produce. Do you have any estimate of that and what the cost would be to bring us into compliance with that?

Mr. WAMPLER. The Department put together a task force of perhaps 20 technical people that came from the State of North Dakota, various universities, and National Labs to look at this problem and study many technologies, looking at all of these under the guidelines of Best Available Control Technology, which includes economic cost. It came up with the technology that it recommended and DOE went forward with the permitting process. As I recall, the cost for that technology was estimated to be around $22 million. That did not get the plant down to the 1,340 pounds; it got it to somewhere around 4,000 pounds.

There are other technical fixes that——

Senator CONRAD. That's pounds per day, by the way, isn't it?

Mr. WAMPLER. Pounds per hour.

There are probably other technical fixes that Basin is contemplating, and I will certainly let Mr. McPhail speak on that. But as we went forward, the $22 million technical project was the best combination of economics and technical fix that we could come up with. Again, there are probably other methods, and I think Basin would be more qualified to speak to that than I.

Senator CONRAD. All right. Two other quick questions. I know that you have another obligation at 11:15.

Let me ask you about the employee retirement funds and employee benefits. Could you briefly review the status of the negotiations with Basin on those questions? Obviously we have over 800 employees of this facility. How their pension funds and their retirement plans are going to be affected are very important to those people in the surrounding community. Could you give us some idea of how those people will be treated?

Mr. WAMPLER. Well, I think in a word, fairly. We are making that a very high priority item in our negotiations, and we should have that resolved very soon. We are just simply looking at some of the costs associated, at the current time, with the plans, which, by the way, is sometimes more difficult than you think—it's just a mass of numbers.

We assumed, as the Department, certain obligations to the employees under ANG's obligations when we took the plant over. Of course, we will bear that in mind, and as the plant is transferred, we intend to treat the employees fairly.

Senator CONRAD. Let me get right to the heart of this because you know and I know it happens when one company buys out another. I mean, recent American history is replete with examples of one company buys out another, and one of the first things they do is they go to the retirement funds, especially if they are overfunded, and they snatch them. Very simply that's what they do.

Now, I understand Basin has made a commitment not to do that.

Mr. WAMPLER. That is true.

Senator CONRAD. That is your understanding?

Mr. WAMPLER. Yes. They have committed to me not to do that.

Senator CONRAD. Well, I think that is important for people to know that they have made a commitment to you and a commitment to the employees as well that they will not go and take those retirement funds that have been funded by ANG and the current employees.

Mr. WAMPLER. That is correct.

Senator CONRAD. The final question I would like to explore with you is the ability of the successful bidder to pursue byproduct development and marketing. And obviously that is very important to the future of this facility.

What is your judgment on the ability of Basin to pursue those opportunities?

Mr. WAMPLER. Well, my judgment is that Basin's ability to pursue those opportunities is as great as any of the potential bidders. I think you have to keep in mind that there is a wealth of talent, with existing employees, in the operation of that plant and in the potential operation of the plant to produce byproducts.

Also, in order to assist in that, the Department is spending a million and a half dollars on a study that will be finished in January, looking at the potential for production of many different byproducts by the plant. We are working very closely with Basin on that now, as we transition. That will be provided to them as an extra, if you will, no later than January.

We would expect that they will take that study and perform whatever appropriate actions they should in byproduct development, because they clearly, in our conversations with them, have indicated that they feel that that is one of the great strengths of the plant, the ability to produce byproducts.

Senator CONRAD. All right. Two other things I want to make sure we review with you before you leave.

One is what was the original investment? What was the total investment the Federal Government has made in this facility to date?

Mr. WAMPLER. It's $1.5 billion. The partners put in $500 million.

Senator CONRAD. That's $1.5 billion.

Mr. WAMPLER. Correct.

Senator CONRAD. And, therefore, under the terms of the agreement with Basin over time you have the potential to cover all of the Federal Government's sunk costs.

Mr. WAMPLER. If you look at it in that kind of a fashion, yes.

Senator CONRAD. The final point I want to take you back to is the status of the siting permits because I think this is obviously a very important point in the community. As I understand, the position that you have taken is that the Shell corporation, the subsidiary of Basin, Dakota Gas, has the obligation to meet the siting requirements that were originally associated with this facility.

Mr. WAMPLER. That's correct.

Senator CONRAD. And that was also the case with ANG.

Mr. WAMPLER. That is correct.

Senator CONRAD. And as I understand it, you are concluding that this subsidiary is a stronger subsidiary than ANG if one looks at

the trust funds that have now been provided for and the capitalization of that company itself.

Mr. WAMPLER. Yes, that would be my opinion.

Senator CONRAD. Finally, I just want to say for the record—and I'm not sure it is something that we can agree to, but I think we should make it clear for the record. If we ever came to a worst case scenario—the governor of the State of North Dakota and I have talked at some length about the matter, and it is our position that if we ever got to the worst case scenario—God forbid—that we would look to, first, Dakota Gas to meet those responsibilities. And if all the responsibilities in those original siting agreements were not met, we would then go back to DOE.

Now, I understand that may not be your position, but that is the State of North Dakota's position, and I think it is a reasonable one given the circumstances. And I just want that to be clear on the record.

I think we have gotten your response that you would look to the trust funds as potential additional assistance. And I very that acknowledgment on your part. But I also think it is not unreasonable for the community that in good faith entered into these agreements with the original partners, the county, the state really ought to be assured the same protection that they had when the facility was built. Would you agree with that general principle?

Mr. WAMPLER. Yes, and I think under the new ownership, they will have as good or better protection because I think we all have to recall that the original partnership did default, and the government for a period of time came in and assumed all those responsibilities. But I do think that we have a strong situation set up. I do think that the citizens of the State are better protected or will be better protected under the new agreement than they ever have been before, actually.

Senator CONRAD. One other thing we do need to mention, and that is some have raised on the House side a concern about Basin's other REA loan commitments and have said, look, if you ever had a worst case scenario, that Basin's other REA loan commitments would be put in jeopardy. What is your response to that question?

Mr. WAMPLER. Well, we think that is a red herring. We asked Basin in the final days of the negotiations to assure us that they would not use funds from REA loan guarantees, and they did assure us of that. They indicated that the purchase of a project of that sort was not eligible, in fact, for REA-guaranteed loans, and they further assured us that they would fund the purchase through other funds that they had, and we think that they are doing it.

REA has awfully good things to say about Basin, I might add; that they are very, very sound. If you look at the way they have the deal structured, I don't think it is a matter of concern.

Senator CONRAD. All right, very good. Anything else that you would like to add for the record at this point?

Mr. WAMPLER. No, just that this has been a long, arduous process, as you know, but the cooperation of you, your staff, the other members of the delegation, and the governor has been just top-notch and top quality, and I really appreciate that.

Senator CONRAD. Well, we appreciate too, speaking on behalf of the State of North Dakota and those of us who have spent a lot of

time along with you trying to thread our way through this very complex transaction, the responsiveness that you have demonstrated repeatedly and the willingness to talk to us and be responsive to the concerns that we have brought to your attention. We very much appreciate the efforts that you have made. And again, I think the overall structuring of this transaction, regardless of the specific outcome because none of us knew what the specific outcome would be, has been exceptional. And you deserve the lion's share of credit for that and should receive it.

With that, we will allow you to make your 11:15 departure and thank you very much for the time that you have taken here this morning.

Mr. WAMPLER. Thank you, Senator.

Senator CONRAD. Next we will hear from Robert McPhail, the General Manager of Basin Electric Power Cooperative.

And let me indicate to those witnesses that are waiting that, obviously, we have taken the most time with the Assistant Secretary because there was a great deal that only he could speak to in terms of getting on the record important aspects to this transaction, and we have taken that time. And I think we have covered all of the areas that needed to be covered with him.

Successive witnesses will not require the same amount of time although I do anticipate that Basin Electric's testimony, which is very critical, obviously, to record here, will take a fair amount of time as well. But when we get into the other panels, we hope to be able to move more rapidly and hopefully we will be able to wrap up by 1:00 or thereabouts.

So, with that, Mr. McPhail, General Manager of Basin Electric Power Cooperative, the successful bidder, welcome. Congratulations. We will be glad to take your testimony.

STATEMENT OF ROBERT L. McPHAIL, GENERAL MANAGER, BASIN ELECTRIC POWER COOPERATIVE

Mr. MCPHAIL. Thank you, Mr. Chairman. It is a distinct honor to appear before this committee in support of the DOE's proposal to sell the Great Plains Coal Gasification Plant.

My name is Bob McPhail. I am the general manager of Basin Electric Power Cooperative headquartered in Bismarck, North Dakota.

With your permission, Mr. Chairman, I would like to submit my statement for the record and summarize.

Senator CONRAD. Without objection.

Mr. MCPHAIL. Basin is a consumer-owned regional cooperative responsible for supplying wholesale electric power to 118 member rural electric systems in eight states: Colorado, Iowa, Minnesota, Montana, Nebraska, North Dakota, South Dakota and Wyoming. The member systems have a combined service area of more than 400,000 square miles giving Basin Electric the largest geographic base of any non-governmental utility in the United States.

Basin Electric has assets of about $3 billion. It owns and operates electric generating and transmission facilities for meeting the needs of more than 1.2 million people served by Basin's member systems. Basin's manages 3,350 megawatts of generating capacity,

the largest operating responsibility of any power supply cooperative in the United States.

In addition to operations and engineering achievements, Basin Electric also demonstrates financial strength and expertise. About half of Basin's financing is through non-REA sources having nearly $2 billion and a half of debt and about $350 million in equity.

Basin Electric has demonstrated access to virtually every financial market which is available to achieve the lowest possible cost of capital for Basin Electric's activities. These include extensive lines of credit from major U.S. banks, they bond markets, the commercial paper markets, as well as the traditional lending sources available to generation and transmission electric cooperatives.

Basin Electric has earned and currently maintains bond ratings of A minus from Standard & Poors and A1 from Moody's which reflect Basin's current strong and financially sound position.

The original agreement between Basin Electric and developers of the gasification plant call for the developers to define, construct and finance the shared facilities for Basin Electric's use at its Antelope Valley power plant in return for Basin providing power at cost and for Basin burning coal which after crushing is too small for use in the gasification plant.

After Basin had initiated construction of its power plant, the developers informed Basin that they could not meet their original commitments which then forced Basin to accept responsibility for completing the design, construction and financing of the shared facilities. Basin Electric borrowed a total of $131 million, including interest during construction, to finance the shared facilities needed to operate the gas plant and the power plant. Contracts were developed that required that Basin Electric would be reimbursed the cost of those investments of the shared facilities on a monthly basis.

On August 5, 1988, the U.S. Department of Energy announced that Basin Electric was the successful bidder for the Great Plains Coal Gasification Plant. Basin's proposal is based on its waiver of $590 million in tax credits, long-term profit sharing and commitment to long-term operation of the plant.

The government has a reasonable possibility to recover the entire $1.565 billion of the original owners' defaulted loan guarantee. This return would come from DOE's share of future gasification plant profits.

On August 23, 1988, following DOE's announcement of Basin being the successful bidder, Basin's staff presented its purchase proposal to about 400 member directors, mostly farmers and ranchers, from its eight state member systems. After much deliberation and many questions, the 103 voting delegates decided to risk $115 million to purchase the gasification plant and related facilities.

The Basin Electric membership decided to form a wholly-owned, for-profit subsidiary corporation of Basin Electric called the Dakota Gasification Company to purchase, own and operate the gasification plant. The Dakota Gasification Company will assume all permits now in ANG Coal Gasification Company's name and the responsibilities associated with those permits.

Basin Electric made a commitment to the DOE to finance the purchase of the gasification plant entirely from sources other than

the Rural Electrification Administration. In a letter to Assistant Secretary Wampler, we stated that the "federally guaranteed funds will not be used to purchase the Great Plains Coal Gasification Project." Our letter goes on to say, "We would cite the Rural Electrification Act of 1936 and regulations which very clearly define which projects are eligible for federal funding. The coal gasification project would not qualify. Basin Electric will fund the purchase of this project through existing cash, supported by the substantial retained margins contained on the Basin Electric balance sheet."

Basin Electric intends to pursue byproduct development that can contribute to the future financial well-being and full potential of the gas plant.

In conclusion, the purchase of this plant has several benefits to the economic well-being of Basin Electric's members. Basin Electric has a strong incentive to do everything possible to assure the long-term operation of this facility. Closure of the plant could inevitably impact Basin Electric and its members by as much as $37 million per year. We believe that this sale makes good sense for the Federal Government, for the taxpayers of America, for the people of North Dakota and Mercer County, the employees of the Great Plains Gasification Plant and for Basin Electric and the 1.2 million people served by its member rural electric systems.

That concludes my statement, Mr. Chairman, and I will be pleased to respond to any questions you might have.

[The prepared statement of Mr. McPhail follows:]

STATEMENT BY ROBERT L. McPHAIL, GENERAL MANAGER
OF BASIN ELECTRIC POWER COOPERATIVE,
BEFORE THE
SENATE ENERGY AND NATURAL RESOURCES COMMITTEE
ON THE PENDING SALE OF THE
GREAT PLAINS COAL GASIFICATION PLANT
SEPTEMBER 12, 1988 - 10:00 A.M.

Mr. Chairman, it is a distinct honor to appear before this Committee in support of the DOE's proposal to sell the Great Plains Coal Gasification Plant.

My name is Bob McPhail. I am the general manager of Basin Electric Power Cooperative, headquartered in Bismarck, North Dakota.

On Aug. 5, the U.S. Department of Energy announced that Basin Electric was the successful bidder for the Great Plains coal gasification plant. Basin's proposal is based on its waiver of $590 million in tax credits, long-term profit sharing and long-term operation of the plant. The government has a reasonable possibility to recover the entire $1.565 billion of the original owners' defaulted loan guarantee, the amount being paid out of DOE's share of future gasification plant profits.

Before discussing Basin Electric's early involvement with the gasification project leading up to the purchase proposal, I will first profile Basin Electric's operation and very good record in the electric utility industry.

Basin Electric is a consumer-owned, regional cooperative responsible for supplying wholesale electric power to 118 member rural electric systems in

eight states -- Colorado, Iowa, Minnesota, Montana, Nebraska, North Dakota, South Dakota and Wyoming. The member systems have a combined service area of more than 400,000 square miles, giving Basin Electric the largest geographic base of any non-governmental utility in the nation.

Basin Electric has assets of approximately $3 billion. It owns and operates electric generating and transmission facilities for meeting the needs of more than 1.2 million people served by Basin Electric member systems. Basin Electric manages 3,350 megawatts of generating capacity, the largest operating responsibility of any power supply cooperative in the United States.

Ranking about 10th of all electric utility coal consumers in the nation, Basin Electric has experience and ability in mining and transporting coal and in mined land reclamation, as well as purchasing coal from others.

In 1962, Basin Electric was the first utility in the nation to require that strip mined land be returned to rolling countryside. This requirement was written into Basin's coal supply contract long before rules and regulations on mined land reclamation were enacted by state and federal governments.

In the 1960's, Basin Electric pioneered the burning of North Dakota lignite on a large scale. When the Leland Olds Station was dedicated in 1966, it was the largest lignite-fired electric power station in the Western Hemisphere. Pilot testing on this unit demonstrated that electrostatic precipitation was a feasible technology to remove particulate from flue gas in the use of low sulfur lignite for large scale power generation.

Basin Electric was the first utility in the nation to perform extensive testing programs using desulfurization technology known as dry scrubbing. Through joint efforts with other equipment manufacturers, dry scrubbing technology was pilot tested and then commercialized by Basin Electric. This new technology was installed on Unit 3 of Laramie River Station in Wyoming, and on both units of Antelope Valley Station in North Dakota, a total of 1500 MW of generation capacity.

Basin Electric has also been very successful in operating wet scrubbers on Units 1 and 2 of the Laramie River Station, a total of 1200 MW of capacity. Recognizing this work, the Environmental Industry Council and the President's Council on Environmental Quality in 1980 presented Basin Electric an Award of Excellence in Air Pollution Control "for outstanding technological achievement and leadership in all areas of pollution abatement." Only two other utilities in the nation operate more installed capacity using scrubbers than Basin Electric.

Power generating facilities managed and operated by Basin Electric have consistently been among the nation's leaders in reliability and low-cost operation. Statistics recently released by the Utility Data Institute (UDI) for the year 1986 show the 1650 megawatt Laramie River Station as the lowest-cost producer of energy of any coal-fired electric generating station in the nation. The 900 megawatt Antelope Valley Station ranked third among coal-fired plants. These rankings were achieved even though the units all

carry the added cost associated with sulfur scrubbers, scrubbers that remove more than 90% of the sulfur dioxide from the boiler flue gasses.

The number and duration of forced outages at facilities operated by Basin Electric in 1987 and prior years are very low compared to industry averages. For example, forced-outage rates reported by the North American Reliability Council for power plants comparable in size to those operated by Basin Electric average 8.0%. Basin Electric's historical average forced outage rate is 1.4%, the same as the rate for 1987.

In addition to operations and engineering achievements and efficiencies, Basin Electric also demonstrates financial strength and expertise. About half of Basin Electric's financing is through non-REA sources. Having nearly $2.5 billion of debt and about $350 million in equity under active management, Basin Electric has demonstrated access to virtually every financial market which is available to achieve the lowest possible cost of capital for Basin Electric's activities. These include extensive lines of credit from major U.S. banks, the bond markets and commercial paper markets, as well as the traditional lending sources available to generation and transmission electric cooperatives. Basin Electric has earned and currently maintains bond ratings of A- from Standard & Poors and A1 from Moody's which reflect Basin's current strong and financially sound position.

Basin Electric will bring its experience and expertise in operations, environmental matters, and financing to the gasification project through a management services agreement with the Dakota Gasification Company.

Basin Electric became involved with the Great Plains coal gasification plant in 1973. Michigan-Wisconsin Pipeline Company, then a subsidiary of what is now called American Natural Resources, was looking for an electric power source for a series of gasification plants it was planning to build in North Dakota. At that time, there was a genuine national commitment to energy independence. Basin Electric and its member systems honored that commitment by supporting the development of the Great Plains plant, the nation's first commercial coal gasification facility.

By the late 1970s, electricity load forecasts of the Basin Electric member systems were showing a need for additional generating capacity. Discussions between Basin Electric and Michigan-Wisconsin led to the concept of jointly developing projects with shared facilities. The agreement provided Basin Electric with a site for its $1.9 billion Antelope Valley Station, access to attractive lignite reserves, and an opportunity for substantial savings through the sharing of common facilities such as water supply, water treatment plant, a jointly developed coal mine and other benefits.

The original agreement between Basin Electric and the developers of the gasification plant called for the developers to design, construct and finance shared facilities for Basin Electric's use in return for us providing power at cost and for using coal that after crushing is too small for use in the gasification plant.

After Basin had initiated construction of its power plant, the developers informed Basin they could not meet their original commitments which then forced Basin to accept responsibility for completing design, construction and financing the shared facilities. Basin Electric borrowed a total of $131.3 million including interest during construction, to finance the shared facilities needed to operate the gas plant and power plant. Contracts require that Basin Electric is reimbursed the cost of those investments on the shared facilities on a monthly basis.

Basin Electric has also financed $87.4 million for the joint mining operation to supply coal to the power plant. Basin also dedicated generating capacity from its Antelope Valley Station to provide 91 megawatts to meet the gas plant's electrical load.

The Basin Electric Board of Directors authorized a study of the merits of the Cooperative becoming a bidder for the gas plant in August 1987, following DOE's announcement of its desire to sell the facility.

The membership set a course of action for investigating the possible purchase at the Basin Electric annual meeting in November. The member system representatives were motivated to investigate all avenues to ensure the long-term operation of the plant, thereby protecting revenues and economies worth about $37 million annually to the Cooperative. Analyses showed that there were more risks to Basin Electric in not owning the plant than in owning it.

On August 23, 1988, following DOE's announcement of Basin Electric as the successful bidder, Basin staff presented its purchase proposal to about 400 member directors, mostly farmers and ranchers, as well as member managers, from its 8 state member systems. After much deliberation and many questions, the 103 voting director-delegates decided to risk $115 million to purchase the gasification plant.

The member systems realized that although there were risks in purchasing the gas plant, they believed the potential long-term benefits to Basin Electric and regional, state and local economies far outweighed the risks of not purchasing the plant. We are committed to long-term operation of the project.

Basin Electric's Board of Directors and management are confident that the purchase of the Great Plains plant is a sound decision. Basin looks forward to working closely with the Department of Energy, the ND Governors Office, state and county officials and local communities to ensure the plant's successful operation well into the next century.

Basin Electric intends to pursue by-product development than can contribute to the future financial well-being and full potential of the gas plant. Through active development of the plant's by-product potential, we anticipate sufficient revenues to offset the risk of continued low energy prices.

The Basin Electric membership decided to a wholly-owned, for profit subsidiary corporation of Basin Electric called the Dakota Gasification Company (DGC) to purchase, own and operate the gasification plant.

The Dakota Gasification Company will assume all permits now in ANG Coal Gasification Company's name and the responsibilities associated with those permits.

Basin Electric made a commitment to the DOE to finance the purchase of the gasification plant entirely from sources other than the Rural Electrification Administration (REA).

In a letter to Assistant Secretary of Fossil Energy J. Allen Wampler we state that "federally guaranteed funds will not be used to purchase the Great Plains Coal Gasification Project." Our letter goes on to say, "We would cite the Rural Electrification Act of 1936 and regulations which very clearly define which projects are eligible for federal funding. The coal gasification project would not qualify. Basin Electric will fund the purchase of this project through existing cash, supported by the substantial retained margins contained on the Basin Electric balance sheet."

In conclusion, the purchase of this plant has several benefits to the economic well-being of Basin Electric's members. Basin Electric has a strong incentive to do everything possible to assure the long-term operation of this facility. Closure of the plant could negatively impact Basin Electric by as much as $37 million per year. In addition, the effect of such a closure upon the economy

of western North Dakota would indirectly impact upon Basin Electric, its member systems and many consumer-members. On the positive side, the acquisition of the project includes securing full control of the coal mine, and, with adjacent reserves which Basin Electric already owns, this mine can supply fuel to other Basin Electric facilities at a savings to its members. Added efficiencies will be gained with synergism and economy of scale from having one company own the power plant, gas plant and coal mine.

Basin Electric also believes that it can more fully develop the potential of this project through the production of liquified carbon dioxide for which there will be a demand in the nearby Williston Basin enhanced oil recovery. This would generate sizeable power sales to help ensure markets for surplus power and promote continued rate stability for rural electric consumers in the region.

It is the belief of the Basin Electric membership, Board of Directors and management that the position of the federal government as a secured lender to Basin Electric will be protected and possibly enhanced through the acquisition of the coal gasification project. We believe that this sale makes good sense for the federal government, the taxpayers of America, the people of North Dakota and Mercer County, the employees of the Great Plains gasification plant and for Basin Electric and the 1.2 million people served by its member rural electric systems.

Senator CONRAD. Thank you, Mr. McPhail, for that testimony.

Let me ask of you one of the questions that I asked of Mr. Wampler that goes to the question of the composition of the various trust funds. Mr. Wampler has testified that they have the $30 million trust fund for fixing the emissions problem that exists at the facility. Let me ask you the flip side of that question. Do you feel comfortable in buying a gas plant without a valid operating air quality permit?

Mr. MCPHAIL. This was a real dilemma for Basin Electric as we approached the bidding for this project. How do you factor in the fact that this plant does not have a valid operating permit? Our consultants reviewed the options and the amount of monies range all the way from a few million dollars up to as $50 million.

Senator CONRAD. That would to have a full fix on the emissions problem that exists?

Mr. MCPHAIL. That is correct. So, there is a wide range of possible expenses associated with the technology.

Senator CONRAD. And that would be to provide best available technology?

Mr. MCPHAIL. That's true. And that is still an open question.

So, it was a great relief when DOE took the position that they would set aside $30 million and commit that to meeting the operating permit requirements and to clean up the environment. I will personally not be comfortable until we actually get the permit and make all the fixes.

The problem is we currently do not have agreement on best available technology. That is still being reviewed by the DOE, by Basin Electric and the state health department in North Dakota. We plant to work with those entities, and hopefully in the near future we will come to an agreement on best available technology. And we will be proceeding over the next few months to bring about those developments.

Senator CONRAD. Were you satisfied with the answers that the Assistant Secretary provided here this morning on the question of how they would approach the handling of the $30 million?

Mr. MCPHAIL. I was very satisfied with the statements made by the Assistant Secretary.

Senator CONRAD. Let me go to another question that I asked him and I would ask you as well, and that is the status of the siting permits. I notice you said in your testimony that Dakota Gas accepts the full responsibility for the requirements under the requirements under the siting permits. In your analysis will there be sufficient resources there to meet any conceivable demands that would be made against Dakota Gas?

Mr. MCPHAIL. I agree with the Assistant Secretary that in all likelihood that plant will never be abandoned because of the simple fact that it sits on top of some tremendous coal resources and that converts to tremendous gas resources. So, even if the price of gas was such that it caused a temporary shutdown of the plant, that plant would be mothballed and retained for future use because of the tremendous gas reserves that it sits on.

The Basin membership did set up the Dakota Gasification Company and our commitment is that Dakota Gasification Company will comply with all Federal and state laws and regulations con-

cerning this project and will strive to meet the terms and conditions of the permits issued to this project by ANG and all of the above-mentioned agencies.

Senator CONRAD. Let me ask you this. In your judgment, what responsibility would Basin, or more specifically Dakota Gas, have—and I want to emphasize Dakota Gas because that is the corporation that, as you have indicated, would have the responsibility. What the extent of that responsibility be to the community in terms of socio and economic impact in the event of a mothballing?

Mr. MCPHAIL. Well, our commitment is to assume those permits and live up to all the requirements outlined in the permits. Dakota Gasification would make that commitment.

Senator CONRAD. The air quality question—that is another thing that I think deserves attention and some focus. We talked to Mr. Wampler about that. The original standard was that best available technology would be used. And the estimate was that that would produce emissions of 1,340 pounds per hour. We now know that we are close to somewhere in the range of 4,000 pounds per hour.

In your judgment and in the view of those who have looked at it from your company, what would best available technology provide in terms of pounds per hour or emissions? Do you have an analysis yet of what is possible there?

Mr. MCPHAIL. We really don't have a complete analysis of that yet. Our staff has been looking at it and working with consultants and working with the DOE folks and the health department folks. We think that the 4,000 pounds per hour can be met and bettered. We think that somewhere in the range of maybe 3,000 pounds per hour can be obtained.

Senator CONRAD. Do you have any intention of going to the State of North Dakota and asked to be relieved of the responsibility to use best available technology?

Mr. MCPHAIL. No. The intent is to work with the state and with the DOE to get agreement on what is best available technology and then proceed from that point.

Senator CONRAD. All right.

Exposure of Basin's existing REA loans. As you know, on the House side we have had that issue raised. There has been a suggestion by some that the existing loans that Basin has would be put in jeopardy potentially by this transaction. What would be your response to that?

Mr. MCPHAIL. There is no way that that could happen under our proposal. Our proposal is structured so that the amount of risk that we are being exposed to is roughly $115 million. In a worst case scenario, if a catastrophe happened, if we had to close the plant down, we have substantial retained margins on the book that our board of directors could offset that loss and write off the loss without any adverse impact to the rate payers or without any impact on the money, on the notes, that we owe to the Federal Government.

Senator CONRAD. So, if we had a worst case scenario—and again, we have talked a lot about worst case scenarios here because I guess that's the worst fear that all of us have. In a worst case scenario, you would draw down retained earnings, and your testimony

is there would not be adverse impact either to the Federal Government that has existing REA loans or to rate payers of Basin.

Mr. McPHAIL. That is what our analysis shows, yes, sir.

Senator CONRAD. Employee issues. Obviously, this is high on the minds of the community. And I would be interested in your response. The Assistant Secretary made a number of commitments here that I think give substantial comfort to those who have an interest in those issues. Perhaps you could give us your view of where the negotiations stand in terms of employee retirement funds, employee benefits and the other issues that related to employees, layoffs, severance pay. Perhaps you could give us a review of those.

Mr. McPHAIL. We at Basin Electric are impressed with the quality of employees at the Great Plains Gasification Plant. Their record has been remarkable in operating that unique facility efficiently, safely and in an environmentally sound manner. Basin Electric management held information meetings with the employees at the plant on August 30 and 31. In addition to Basin's presentation, considerable time was spent answering questions of the employees.

Basin Electric doesn't expect any large-scale layoffs at any time, but that doesn't mean that every GPGA employee is guaranteed a job. We will be looking at the operation, and there could be restructuring and/or layoffs if we believe they are warranted to achieve greater efficiencies. We know that the long-term future of this plant lies in it being efficient, cost effective, and we just have to do everything we can to make it efficient and cost effective.

Our staff is reviewing the current salary and benefits packages in effect at Great Plains. It appears employees benefits at Basin Electric and the plant are comparable. We have no plans at this time to change benefits, but there could be adjustments as we examine them further. We also expect some limited salary changes for a few employees to take place when Dakota Gasification Company begins operating the plant. However, during the transition period, all employees' salaries will be reviewed for possible modifications.

Great Plains employees will be given credit for their years of service at the plant whether they become employees of Dakota Gasification Company or Basin Electric. We are committed to applying their past years of service to the pension and savings plan and other applicable benefits.

We recognize the valuable contribution of the employees of Great Plains and the good job they are doing in operating the plant. We hope that they will continue to assist in Dakota Gasification Company's goal of operating the plant on a long-term, cost effective basis.

Senator CONRAD. One of the important issues is the whole question of raiding of pension funds. That has been frequently the case in takeovers. We have seen all across the country the takeover company immediately raiding the pension funds. I understand Secretary Wampler has indicated that you have made a commitment not to raid the pension funds. Is that the case?

Mr. McPHAIL. That is correct. We have made that commitment.

Senator CONRAD. And you have made that commitment not only to Secretary Wampler, but to the employees of the facility itself.

Mr. MCPHAIL. Yes, we have.

Senator CONRAD. Do you have any knowledge at this point as to whether or not that pension fund is overfunded on an actuarial basis?

Mr. MCPHAIL. We do not know the exact numbers, but we are told by DOE that presently the pension plan is overfunded.

Senator CONRAD. So, that pension fund on an actuarial basis should be completely sound and employees, according to your testimony, should have no concern that Basin would move any overfunding even into Basin's treasury?

Mr. MCPHAIL. That is correct. We would not.

Senator CONRAD. All right.

One other question that I think needs an answer perhaps is the whole question of byproduct development and developing the full potential of that facility. There have been some who have suggested that the opportunities that exist could be better exploited by a company that has more experience in the national marketplace in terms of byproducts. Perhaps you could give Basin's view on that question.

Mr. MCPHAIL. We see byproduct development as a way to improve the long-term operation of that plant because if we have the opportunities to develop byproducts and sell those products, the profits from those will help offset any losses that might occur because of low gas prices in the future. So, this offers an opportunity to us as the new owner to help assure long-term operation of the plant.

We know that there is a tremendous market in the Williston Basin for carbon dioxide to assist in the oil recovery through tertiary development. This would benefit Basin in two ways. One, if we develop CO_2 at the plant, that would increase electrical load, the need for more electricity. Basin is in a position right now of having a large amount of surplus generating capacity, and so we could utilize part of that surplus by developing CO_2. Then once that CO_2 is transferred to the oil fields in the Williston Basin, many of our members could benefit by providing the electricity to pump that CO_2 into the ground for additional oil recovery.

So, because of those factors, we think we are in a unique position to develop CO_2 perhaps even earlier than some of the other companies because of the additional benefits that we would receive from using our surplus generating capacity.

Senator CONRAD. Are there other byproducts opportunities that you have identified?

Mr. MCPHAIL. Yes, we have identified several and we are still in the process of learning more about those and working with the people at the plant.

Senator CONRAD. The Department indicated this morning that they have studies underway, a million and a half dollars of studies, on potential for byproducts that they will make available to you. Have you discussed with them at all the nature of those studies and have you called for additional studies?

Mr. MCPHAIL. At the present time, Kent Jansen of my staff met with the DOE officials and people from the Great Plains plant in

Chicago last Wednesday. And they went through the different options that they felt would be the right projects to address in this $1½ million survey. Then after this survey is completed, a consultant will put together all of the data and capsulize all of the information that has been developed related to byproducts. And that report will be turned over to Basin Electric in January 1989.

Senator CONRAD. Are there any other statements that you would want to make for the record before we conclude your testimony?

Mr. MCPHAIL. We think that this sale makes good sense for Basin Electric, certainly for the United States, the taxpayers. We think this is win-win situation for everyone concerned, Mr. Chairman. And I appreciate the opportunity to testify here today.

Senator CONRAD. All right. We thank you very much for taking the time to be here.

Next we will hear from Randolph Nodland, a member of Dakota Resource Council of Dickinson, North Dakota, and Dennis Hill, the Executive Vice President and General Manager of the North Dakota Association of Rural Electric Cooperatives of Mandan, North Dakota.

Welcome, both Mr. Nodland and Mr. Hill. It is good to have you with us. Mr. Nodland, why don't you begin, introduce yourself, identify your organization and proceed with your testimony.

STATEMENT OF RANDOLPH NODLAND, MEMBER, DAKOTA RESOURCE COUNCIL

Mr. NODLAND. Good morning. My name is Randolph Nodland. I appreciate this opportunity to testify before this committee. I'm a rancher/farmer near Dunn Center, North Dakota, and that is in the western part of the state. I am a member of one of the rural electric co-ops which gets its power from Basin Electric and, therefore, I have a personal interest in the sale.

Today I am here as a representative of the Dakota Resource Council. The Dakota Resource Council is a grassroots membership organization of farmers, ranchers and small business people dedicated to the preservation of the rural community and its agricultural economy. Since it began in 1978, DRC has worked to empower North Dakotans to take an active role in the decision making processes which affect their lives.

I am also representing the Western Organization of Resource Councils, a regional association of grassroots membership organizations, including the Dakota Resource Council, the Northern Plains Resource Council in Montana, the Powder River Basin Resource Council in Wyoming, and the Western Colorado Congress. Many of the members of DRC, Dakota Resource Council and WORC, which I will refer to as WORC—that is the Western Organization of Resource Councils—are member-owners of rural electric co-ops served by Basin Electric.

DRC and WORC have not taken a stand opposing or supporting any of the companies involved in the bidding process. But due to the fact that many DRC and WORC members also happen to be Basin members, we are very concerned about Basin's involvement in the sale. Since we believe the Basin members are in the long run its

key assets, we wish to be sure they are shielded completely from this deal.

Senator Conrad, you have raised many of the issues that I have in my testimony. You may have felt they have been answered, but I would like to stress that we want to be sure that there are stipulations and conditions put in the DOE agreement with Basin so that these questions are clearly taken care of.

Basin has said it will be setting up a subsidiary corporation, Dakota Gasification Company, that will be in charge of running the plant. We would like to be assured that Basin Electric and its members will be completely shielded from any liabilities for which the Dakota Gasification Company may become responsible. So far, Basin Electric has not offered any such guarantees. I think what they have said since last November when we became aware that Basin was contemplating the purchase of Great Plains—they have said that they would shield the member-users to the extent possible. And I think we would like to see something a little stronger than that than just to the extent possible.

Therefore, we would like DOE to condition the sale so that the purchaser agrees that its member-owner co-ops will not and cannot be responsible for any liabilities for the operation, maintenance, costs of decommissioning or other unforeseen costs associated with owning and operating the plant.

We are concerned about the profitability of the plant over the long run. The plant is currently making money due mostly to take or pay contracts at which the gas in the plant is sold at a substantially higher price than gas at the wellhead. And I do have testimony that was given at a hearing last April by Keith Falce of GAO where he pointed an example of December 1987 price of gas per million Btus. The Great Plains Gas received $3.96 per million Btus as compared to the national wellhead of $1.75 per million Btus. That figure—there were some questions raised as to what that was this morning.

If the gas prices on the open market are as low as they are currently, even Basin acknowledges that it will not be able to make profits.

At a recent synthetic fuel symposium in Bismarck, North Dakota, Theodore VanderPass, manager of SASOL, Limited in South Africa, which is a coal gasification plant similar to Great Plains, said in a lecture that significant oil be available for several decades at such a level of price that syn fuels will not be able to compete.

Basin Electric is saying that they intend to make money off the development of byproducts in the plant. Our concern is that this development is going to take a considerable amount of financing to get off the ground, and we are afraid Basin might put either its member-owned assets or its ability to pay back federally backed loans at risk by borrowing this money to get the byproducts going. And you discussed that this morning as far as REA's were concerned.

We do agree with the thought by some that private industry might have been in a better position to take the financial risks, but we do hope that those questions can be clarified and answered in the sale agreement so that member-users are not at risk.

DRC would also like the sale agreement between DOE and Basin to include a provision guaranteeing that the $30 million set aside to clean up environmental problems at the plant be used for that purpose and for that purpose only. We also urge that this provision specify that if this fund is not sufficient to bring the gasification plant into compliance with its 1,340 pounds per hour emission rate, that Basin will continue to work to bring the plant into compliance with this standard and will not lobby the North Dakota State Department of Health to lower the permit standard to accommodate the plant's excessive emissions.

The sale agreement should include a provision specifying that Basin Electric will honor all the provisions of the North Dakota state siting permits, including those which require plant operator to compensate local governments for adverse socioeconomic impacts associated with operating or closing down the facility and those which require reclamation of the plant site on decommissioning. And I do have a copy of the Mercer County certificate of approval for conditional use plan for the plant. And this was signed by County Commissioner Edward Schultz and I believe Mr. Lundberg from ANG.

One is in addition to those conditions applying to a coal gasification conditional use as stated in the Mercer County zoning ordinance, the following conditions are attached to this approval of this conditional use and all such conditions must be met by ANG Coal Gasification Company, hereinafter referred to as ANG, and its successors or assigns. I think that is important.

And then, of course, condition number 5——

Senator CONRAD. Let me just stop you there because I would like to pursue this point because I agree with you. I think it is a very important point. See if you agree with this line of reasoning which I tried out on the Assistant Secretary that seems reasonable to me.

The Department of Energy was original partner in this facility. The partners that actually owned it defaulted. Ownership then returned to the Department of Energy. They held title. As the holder of title, it seemed to me they took on all of the responsibilities associated with siting that facility, and the Assistant Secretary agreed this morning with that observation.

Then the Department of Energy arranged the sale and they set the terms and conditions of the sale. To whatever extent the siting provisions are not met in the conditions of sale, it would seem to me that those are retained by the Department of Energy, that they have an ultimate responsibility here to see that each and every one of those siting requirements is met. Would you agree with that? It is ultimately their responsibility to make sure that all of those siting requirements are met.

Mr. NODLAND. Well, I'm not sure. We discussed this issue and we did feel that it was the responsibility of the purchasing party to satisfy these permit conditions.

Senator CONRAD. I would agree with that, but let's go to a worst case scenario in that the assets of the purchasing party are depleted. Wouldn't we then want to look back to the Department of Energy as the one who had all of the responsibility before they structured this sale to be the final guarantor of the responsibilities to the State of North Dakota and the local communities?

Mr. NODLAND. I would say in that case, as a personal opinion, yes, somebody has to pay for it, and somebody has an obligation to Mercer County.

Senator CONRAD. All right, that would be my view. I think we have to look first to the purchasing party, and Dakota Gas we would look to to meet the full obligations and responsibilities. And they have taken them on. But to whatever extent those obligations exceeded the ability of Dakota Gas to meet them, even given the trust funds, the capitalization, that we would then go back to the Department of Energy and say now you have the responsibility, you structured the sale, and if there is any shortfall, we look to you.

Mr. NODLAND. As I have mentioned already, Basin Electric has still not answered many of the questions that it has been asked by both DRC and the press. One of these questions concerns how Basin intends to protect its member-owners and itself from liabilities that this plant might incur. Basin has also been asked what it intends to do about the environmental problems that the plant is currently having. Basin has not made it clear what it intends to do with the plant in three or four years if it becomes obvious that the plant is not able to run profitably. Questions about the siting permits mentioned earlier and whose responsibility they really are have not been clearly answered by Basin. These are just some of the as yet unanswered questions about the sale.

Enclosed is a series of questions DRC asked Basin in a recent letter and Basin's responses. Some of these questions that we asked in the letter are included because Basin's answers were either incomplete or, in some cases, did not even address the question. DRC would like to see all of the questions answered clearly and concisely before the sale is finalized.

We would also like to take a moment to address the membership meeting and the vote that Basin held on August 24. Basin implies that this was a meeting of its entire membership and all were allowed to vote. The meeting was actually a meeting of single delegates from each individual co-op called upon by Basin to vote on the purchase on behalf of their co-op membership. Many of these delegates knew very little about the terms of the sale until they arrived in Bismarck where they first learned about these important details. They were not given a chance to take this information back to their co-ops or to find out how their co-op members would like to see them vote. Both DRC and WORC had asked for many months that this vote be taken to the local co-ops, thus giving every single member-owner of Basin a chance to vote, but our requests were not taken into consideration.

While we realize that the vote is already over with, we still believe that more time should have been taken and that Basin could have at least made an effort to get out information to all of their members. Most of the one million or so individual members of the co-ops that belong to Basin Electric's system have received little information about the purchase of the gasification plant—and I am talking about the terms of the sale that was given out just prior to the vote—beyond what they have seen in the press. Media coverage in the seven states Basin serves outside of North Dakota has been very scant. Most co-op members in those states are probably un-

aware that they are about to become part owners of this gasification plant.

I guess I would be glad to answer any questions. I did have some other issues that I wanted to stress but, namely, now since a lot of those issues have been discussed, it would just be repetitive. I just want to stress, as I said earlier, that these questions we have raised, that our organizations have raised, that they be answered, that contract conditions be clear so that we know where we're at. With that, I would be glad to answer any questions.

[The prepared statement of Mr. Nodland follows:]

DAKOTA RESOURCE COUNCIL -- 29 7th Avenue, Dickinson , N.D. 58601

Good Morning. My name is Randolph Nodland. I am a rancher-farmer near Dunn Center, North Dakota, which is in the western part of the state. I am a member of one of the local rural electric co-ops which makes up Basin Electric, and therefore have a personal interest in this sale.

Today I am here as a representative of the Dakota Resource Council. The Dakota Resource Council is a grass-roots membership organization of farmers, ranchers and small-business people dedicated to the preservation of the rural community and its agricultural economy. Since it began in 1978, DRC has worked to empower North Dakotans to take an active role in the decision-making processes which affect their lives.

I am also representing the Western Organization of Resource Councils, a regional association of grassroots membership organizations including the Dakota Resource Council, the Northern Plains Resource Council in Montana, the Powder River Basin Resource Council in Wyoming, and the Western Colorado Congress. Many of the members of DRC and other WORC groups are member-owners of rural electric co-ops served by Basin Electric.

The Dakota Resource Council has been interested in the sale of the Great Plains Plant since Basin announced that it was considering a bid to purchase the plant. At our Annual Meeting in November of 1987, DRC passed a resolution which described where we stood on Basin's buy-out of the plant. This resolution is listed below:

- A separate co-op or corporation is formed;
- Current equity in Basin Electric and the REC co-ops is protected;
- The necessary funds be committed to clean up the odors produced at the plant and bring it into compliance with state SO2 standards;
- That member users of local REC's be informed of any serious plans for purchase of Great Plains by Basin; and,
- A comprehensive impartial study be authorized by Basin's board to look into the feasibility of purchasing the plant.

Basin has said that it will be setting up a subsidiary corporation, Dakota Gasification Company, that will be in charge of running the plant. We would like to be assured that Basin Electric and its members will be completely shielded from any

liabilities for which the Dakota Gasification Company may become responsible. So far, Basin Electric has not offered any such guarantees, and does not seem to be willing to do so in the future. Therefore, we would like DOE to condition the sale agreement so that the purchaser agrees that its member-owner co-ops will not and cannot be responsible for any liabilities for the operation, maintenance, costs of decommissioning or other unforseen costs associated with owning and operating the plant.

DRC would also like the sale agreement between DOE and Basin to include a provision guaranteeing that the $30 million set aside to clean up environmental problems at the plant be used for that purpose and for that purpose only. We also urge that this provision specify that, if this fund is not sufficient to bring the gasification plant into compliance with its 1340 lb/hr emission rate, that Basin will continue to work to bring the plant into compliance with this standard, and will not lobby the North Dakota State Department of Health to lower the permit standard to accommodate the plant's excessive emissions.

The sale agreement should include a provision specifying that Basin Electric will honor all the provisions of the North Dakota state siting permits, including those which require the plant operator to compensate local governments for adverse socioeconomic impacts associated with operating or closing down the facility and those which require reclamation of the plant site on decommissioning. This provision should clarify that Basin Electric will not ask DOE to satisfy these permit conditions. Responsibility for compliance with these permit conditions is currently a subject of some uncertainty, but it is critical to the peace of mind of residents of Mercer County and surrounding areas.

As I have mentioned already, Basin Electric has still not answered some of the questions that it has been asked by both DRC and the press. One of these is questions concerns how Basin intends to protect its member-owners and itself from liabilities that this plant might incur. Basin has also been asked what it intends to do about the environmental problems that the plant is currently having. Basin has not made it clear what it intends to do with the plant in three or four years if it becomes obvious that the plant is not able to run profitably. Questions about the siting permits mentioned earlier, and whose responsibility they really are, have not been clearly answered by Basin. These are just some of the as yet unanswered questions about this sale.

Enclosed is a series of questions DRC asked Basin in a recent letter, and Basin's responses. Some of the same questions that we asked in the letter are included above because Basin's answers were either incomplete, or in some cases did not even address the question. DRC would like to see all of these questions answered clearly and concisely before the sale is finalized. We would also like to take a moment to address the membership meeting and vote that Basin Electric held on August

24. Basin Electric implies that this was a meeting of its entire membership, and all were allowed to vote. The meeting was actually a meeting of single delegates from each individual co-op, called upon by Basin to vote on the purchase on behalf of their co-op membership. Many of these delegates knew very little about the terms of the sale until they arrived in Bismarck, where they first learned these important details. They were not given a chance to take this information back to their co-ops, or to find out how their co-op members would like them to vote. Both DRC and WORC had asked for many months that this vote be taken to the local co-ops, thus giving every single member-owner of Basin a chance to vote, but our requests were not taken into consideration.

While we realize that the vote is already over with, we still believe that more time should have been taken, and that Basin could have at least made an effort to get out information to all of their members. Most of the one million or so individual members of the co-ops which belong to Basin Electric's system have received no information about the purchase of the gasification plant beyond what they may have seen in the press. Media coverage in the seven states Basin serves outside of North Dakota has been very scant. Most co-op members in those states are probably unaware that they are about to become part owners of this gasification plant.

We would like to thank you for this opportunity to give testimony before this committee, and hope that our comments and suggestions are given due consideration.

Senator CONRAD. Let me ask this. Would it be fair to sum up your three major concerns as being the following? One, the protection of Basin members from potential liability as a result of this transaction.

Mr. NODLAND. That is number one, right.

Senator CONRAD. Number two, the question of air emissions and taking care of the air quality problems that exist and the assurance that the $30 million trust fund be used for that purpose.

Mr. NODLAND. That is correct, and that purpose only.

Senator CONRAD. And three, that all provisions of the siting requirements be honored, that those are the three large issues that you would like assurance on.

Mr. NODLAND. Correct. I think you have summed it up quite well.

I think the members, of course, have questioned Basin getting into this venture from the start. We do feel that had one of the other companies gotten the plant, Basin would still have been protected for their power sales. But we have not supported any of the companies nor Basin Electric on the sale.

Our position, as has been clearly stated, is that we do have to have these protections so that our member-users are not responsible if the plant goes down the tubes or it closes or loses money or whatever. And I think the venture is quite risky, but I guess we will just have to go from here.

Senator CONRAD. All right. We will go to Mr. Hill now, Dennis Hill, the Executive Vice President and General Manager of the North Dakota Association of Rural Electric Cooperatives. And it would be my intention then that we would go to Mike Mujadin and Wil Lundberg as our second panel. And then if Mr. McPhail is available, if you could stay, maybe we could come back to some of these points and recall you and have a chance to get your reaction. I think that would be good for filling out the record.

Dennis Hill, welcome.

STATEMENT OF DENNIS HILL, EXECUTIVE VICE PRESIDENT, NORTH DAKOTA ASSOCIATION OF RURAL ELECTRIC COOPERATIVES

Mr. HILL. Mr. Chairman, thank you. I appreciate the opportunity to appear before the committee today. I too have a written statement which I would propose to submit for the record and then summarize it.

Senator CONRAD. Without objection.

Mr. HILL. Thank you. It is a pleasure for us to appear before you today and talk about this pending sale of the gasification plant.

The organization that I represent consists of 75,000 grassroots members of 20 rural electric distribution cooperatives in North Dakota. The 75,000 members are North Dakota farm and ranch families, rural residents and small businesses. And of the cooperatives that provide these people with power, 17 of these cooperatives are members of Basin Electric Power Cooperative, and the other three are members of Minnkota Power Cooperative, a member-owned generation and transmission cooperative headquartered in Grand Forks. And in addition to these 20 distribution cooperatives,

there are six generation and/or transmission cooperatives, including Basin Electric, that are members of our association.

We would just like to stress two points in our testimony to the committee today. The first of those is that our membership supports the sale of the gasification plant to Basin Electric Power Cooperative, and the second is that we would encourage a continued partnership between the Department of Energy and/or the Federal Government and Basin Electric Power Cooperative to ensure that this gasification plant enjoys a successful future.

Briefly, we support the sale of this plant to Basin Electric for the following reasons. We think clearly that Basin Electric represents the best hope that we have in North Dakota for this plant to see long-term operation. Our fear from the very beginning was that some company would move into North Dakota and enjoy some tax credits and then shut the plant down after a few short years of operation. Basin Electric, on the other hand, as the testimony before me has pointed out, has much to gain from this plant if it continues in long-term operation.

The other point is that Basin Electric has a solid reputation and a commitment to North Dakota that we sense some of the other bidders may not have had. Basin has been exceptionally responsible in its efforts to generate power on the plains of North Dakota, and we see no reason to believe that they wouldn't continue that sense of commitment to North Dakota in running this gasification plant. Basin, for example, was reclaiming its mined lands long before there were reclamation laws in this country, and that is the sense of the kind of commitment they have to our state.

The other thing that has been raised about Basin Electric has to do with its expertise to run the plant, and I think our position would only be that Basin Electric from the very beginning was told that a group of farmers and ranchers could not even begin to operate the multi-state generation and transmission cooperative. Obviously, they have prevailed, and we think this tenacity would again come forth in running of the gasification plant. And we would expect them to have the same kind of expertise available to run this plant.

I think the other point that we would like to stress this morning though is that the Department of Energy and the Federal Government should continue to think of itself as a partner in this project. I suspect from time to time we have all had property in our lives that once we have sold, we think, oh, my gosh, we are glad to get rid of that kind of property.

But in this case, we think that this gasification plant is clearly a project that this Nation needs, and we would encourage the Federal Government and the Department of Energy to continue to think of this plant as a national resource and a national treasure.

I think when Mr. Wampler was in Bismarck during the past month, he stated that we have in place the knowledge that we can build and operate a plant of this kind that can convert our most abundant domestic fossil energy resource, which is coal, into a clean burning premium fuel.

I think we also philosophically and wholeheartedly agree with Mr. Wampler's statement that the sale of this plant should be the next chapter in the development of syn fuels in this country and

not the last chapter. I think that was very much in line with our philosophy on this project.

There are several ways that we see the Department of Energy and the Federal Government remaining partners in this project. The first of those would be to dedicate as much research money as possible into finding new applications for this technology. Mr. Wampler points out that the Department will spend some $70 million on syn fuels technology in the coming fiscal year and up to another $40 million to $60 million on ways to use the liquids, gases and solids produced by the syn fuels technology. And we would urge an increasing amount of this research money be dedicated to that plant and finding new uses for it.

I think there is a role for the Department of Energy to remain involved in helping calm environmental concerns of this plant. Again, we commend the DOE for dedicating up to $30 million to take care of the current concerns, but as new technologies develop, there may be other environmental concerns that are raised. And again, this Nation will benefit if DOE participates in solving those problems.

The third way that we see that they could help would be in that worst case scenario that we have talked about so often this morning. We agree philosophically and wholeheartedly again that the Department of Energy and the Federal Government has been in on this project from day one. And if that worst case scenario ever does come down the road, we think it is too much to ask of the Mercer County residents and that local area to bear all that burden on its own. We, indeed, see that DOE would have a role in that.

I think the fourth area that we see a partnership is that we would hope that the DOE would promote this plant as its flagship and again a national resource that we could point to other countries of the world and say we have one of those in America. We have one located near Beulah, North Dakota, and that we can rely on that technology into the future to stop what Senator Domenici has pointed out, the $40 billion a year that we are sending out of this country in terms of buying imported oil.

So, I guess those are just the two points that we would like to make this morning, Mr. Chairman. And again, we support the sale of the plant to Basin Electric and we would encourage a continued strong Federal partnership in this project in the future. We have believed for many years in North Dakota that things go a lot better when you work as a team, and we would hope that the Federal Government and DOE would want to continue this team work approach well into the future.

So, with that, I would be happy to answer any questions you might have.

[The prepared statement of Mr. Hill follows:]

NORTH DAKOTA ASSOCIATION OF
RURAL ELECTRIC COOPERATIVES

Statement

of

Dennis Hill

Executive Vice President

North Dakota Association of Rural Electric Cooperatives

before the

Committee on Energy and Natural Resources

United States Senate

September 12, 1988

RE: Oversight hearing on sale of the Great Plains Coal Gasification Project to Basin Electric Power Cooperative

Mr. Chairman and distinguished members of the Committee:

On behalf of the North Dakota Association of Rural Electric Cooperatives, let me first express my thanks for this chance to submit testimony on this subject so important to North Dakota's future. We sincerely appreciate the time and effort our Sen. Conrad has dedicated to seeing that this plant stay in operation for the long term; that of Chairman Johnson's, who visited our state the past month to see first hand what this plant means to North Dakota; and that of the other committee members who are reviewing the sale in this hearing.

The organization I represent consists of 20 rural electric distribution

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cooperatives, serving more than 75,000 North Dakota farm families, rural residents and small businesses with dependable electric power. Seventeen of these cooperatives are members of Basin Electric Power Cooperative; the other three are members of Minnkota Power Cooperative, a member-owned generation and transmission cooperative headquartered in Grand Forks, North Dakota. In addition to these distribution cooperatives, six generation and/or transmission cooperatives (including Basin Electric and Minnkota Power), are members of our association.

Our organization would like to stress two points in our testimony:

- We support the sale of this plant to Basin Electric Power Cooperative.
- We encourage a continued partnership between the federal government and Basin Electric to ensure this plant will enjoy a successful future.

I. We support the sale of this plant to Basin Electric for the following reasons:

1) Long term operation: In our view, Basin Electric will remain committed to keeping this plant operating. Our concern from the start was that this plant would be sold to a corporation whose interest would only be in tax credits. When used up, we feared the plant would be shut down.

Basin Electric, on the other hand, stands to gain more from keeping the plant operating than by shutting it

down. Part of this gain is clearly financial; Basin Electric and its members have invested more than $100 million in joint facilities to serve the Gasification Plant and Basin Electric's adjacent Antelope Valley Station. This investment would be at risk if the gasification plant was ever shut down. Therefore, Basin Electric has plenty of incentive to keep the plant operating with long term operation, Basin Electric will be able to:

- recover its investment in joint facilities,
- continue to sell 91 MW of power to the plant and
- develop the lignite resource it will acquire for either the gasification plant or one of its nearby generating plants.

2) Commitment to North Dakota: Of the bidders for this plant, none has a more solid reputation as being committed to North Dakota than Basin Electric. Since the early 1960s, Basin Electric has been exceptionally responsible in its efforts to mix North Dakota lignite with water to create steam to generate electricity. In developing nearly 2,000 MW of generating capacity on North Dakota's prairies, Basin Electric has consistently demonstrated a commitment to keeping the environment clean, to employing North Dakotans whenever possible and to keeping its own members and North Dakotans informed of its activities.

In the late 1960s, for example, Basin Electric was reclaiming its mined lands before there were reclamation laws. It consistently has used the best available technology in its plants to keep emissions to a minimum. Basin Electric's plants are among the cleanest burning coal-fired lignite plants in the nation. Because of this past record, our members are confident that Basin Electric represents the best hope North Dakotans have in seeing the gasification plant operate for many decades to come, in a manner North Dakotans have come to expect of utilities that operate in our state.

3) Expertise: Some have questioned whether Basin Electric has the expertise to successfully operate this plant. Our response to that is clearly, "Yes." The farmers and ranchers who formed Basin Electric in the late 1950s and early 1960s were told by outside experts time and again that their vision of creating a multi-state generation and transmission cooperative would never work. Obviously, the "outside experts" were wrong then and we believe they're wrong again. There's a strong, populist tradition in the membership of Basin Electric, a feeling that we're much better off when we take the future into our own hands. That tradition--the tenacity to see a job completed when it's started--is still alive among the Basin Electric membership.

II. The other point we'd like to stress is that the Department of Energy should continue to think of itself as a partner in this project, even though it is selling the plant to the private sector. There's another proud tradition in North Dakota that believes projects go better when you work as a team. That principle certainly applies to the gasification plant for this reason:

> This nation needs that plant: As Assistant Secretary Wampler told us at an international synfuels symposium in Bismarck during the past month: "...we have in place the knowledge that we can build and operate a plant that can convert our most abundant domestic fossil energy resource--coal--into a clean-burning, premium fuel." We must not let a temporary dip in oil and gas prices lull us into thinking that our energy problems are over for the future. Mr. Wampler is clearly correct when he says the sale of this plant should be "the next chapter" in the development of the synfuels industry in this country, not "the last chapter."

There are several ways we see the Department of Energy and/or the Federal government continuing its partnership arrangement with Basin Electric to keep the this plant operating successfully into the future:

1) Dedicating research money: This nation will spend $70 million on synfuels technology in the coming fiscal year; another $40 to $60 million on ways to use the liquids, gases and solids produced by synfuels technology. We would urge that a greater and greater

share of these research dollars be used in North Dakota to help ensure this plant will enjoy a successful future.

2) Helping calm environmental concerns: We commend DOE for dedicating $30 million to clean up . e current air pollution problems at the plant. But other environmental concerns may arise in the future as new technologies develop. This nation benefits when these problems are solved, and thus the federal government should justifiably shoulder some of these costs.

3) Helping the local community in a worst-case scenario: We expect a bright future for the plant. But crystal balls have erred in the past. In the worst-case scenario of having to dismantle the plant, we encourage the federal government to again shoulder some responsibilities in those costs. An impact that great is too much to ask of a local community, especially when the project has benefited this nation to such a great degree.

4) Continuing to regard the plant as a national resource: We encourage the federal government to promote this plant as a showcase of what America has done, and can do, to develop its own energy independence. Locally, we expect to promote this plant as the centerpiece of what we see as a major synfuels industry for our

state. We look for major byproducts to be developed. We again ask, and trust, that the federal government will continue to hold the plant in equally high esteem.

In summary, the rural electric consumers in North Dakota support this sale to Basin Electric because it represents the best chance of having the plant operate well into the future. We have full confidence that Basin Electric can do the job.

Second, we ask for a continued federal partnership to ensure a successful future for this plant. By working together, we can help this nation secure its energy independence.

Again, our thanks to the Honorable Senators of this committee for holding this hearing, and for our invitation to present this testimony.

Senator CONRAD. Thank you, Mr. Hill.

I would like to direct the first question to Mr. Hill, and that is you have now heard the testimony of the Assistant Secretary, Mr. Wampler. You have heard the testimony of Mr. McPhail, the General Manager of Basin Electric. I would be interested in your reaction to their testimony on the question of responsibility for the siting permits and their testimony on how the employees' pension funds will be addressed. Did you have a reaction as you sat and listened to that testimony?

Mr. HILL. I guess the reaction on the siting permits is—I would have to go back to maybe just the philosophy of our organization in that as you go down the ladder, I would guess that the first case would be to go to the current owner which would be Basin Electric.

But beyond that, I think philosophically again I have to say—and I think our organization would agree—that this has been a national project from the beginning. The first partners that were in it clearly relied on the resources of the Federal Government to get it going.

I think the current transition that is being proposed continues a Federal partnership in terms of the environmental concerns, the $30 million, the trust funds that are being set up. There are a number of things that point to the Department of Energy remaining involved in this project for many years into the future. I guess—what is it—some 21 or whatever the number of years are before actually the lifetime of the plant would be depreciated and the Federal Government would be clearly out of the picture. And up until that time, I would sense and I would feel that the DOE definitely would have a role with those siting permits in some fashion.

Senator CONRAD. What is the view of your members on the question of whether or not the Basin membership is being appropriately protected as a result of the use of the subsidiary, Dakota Gas, as the owner of the facility? Are your members comfortable that the membership of Basin are protected in the event of a worst case scenario?

Mr. HILL. I guess our board has not specifically addressed that, Senator. And probably the reason is that, as I mentioned, 17 of our member cooperatives are members of Basin, and we have 3 on our membership who are not members of Basin. And so, it really hasn't been a germane question to our statewide association. We have come at it from more of a perspective that is good for the State of North Dakota, and therefore we have become involved. But in terms of the actual detail of the setting up of the corporation, that has been discussed more in the Basin circles than the statewide circles.

Senator CONRAD. And, Mr. Nodland, if I could go back, I think we have identified what your chief concerns are and the chief concerns of the organization that you represent. Are there any other things that we have not talked about here? We have talked about protecting Basin members from liability, the need to take care of the emissions problem that exists and honoring all of the provisions of the siting requirements. Any other critical question that you would want posed at this point and get an answer to?

Mr. NODLAND. Well, I think that the gas contracts are important. We supposedly got assurances from the court that ruled that the gas contracts are supposed to be held valid. Who knows what is going to happen down the road on those contracts.

One thing I would like to point out is that the consumers in Ohio, New York and Indiana, plus General Motors, are paying double for the synthetic natural gas. They are paying double for that portion they buy from Great Plains as to regular wellhead gas. And it is a question of how long these consumers are going to be willing to pay those kinds of costs. It is blended, so they don't actually pay double, but they pay double for that portion they buy. I think that is an important point. So, I think that the gas contracts that there be some—I don't know how assurances on the gas contracts can be written into this agreement, but I do think that that is an important issue to address and to look at.

And future sales of the—and the byproducts, of course, I am not—I guess I would like to hear more on the potential for the development of byproducts. And I understand that DOE has provided some money. If oil prices should remain low, will there be a market for those byproducts, as great a market as we are hearing? I understand Great Plains is having some problems with their sulfur recovery for their sulfur byproducts. And so, I guess we need to hear if there actually is a real good market for those byproducts, that it is going to make the plant some money or profits down the road.

Certainly right now, the gas itself, other than through the gas contracts, is not going to—you know, if it were selling at the regular price of wellhead gas, it certainly would be a losing proposition.

So, all those things need to be answered I think.

Senator CONRAD. All right. Thank you very much, both Mr. Hill and Mr. Nodland. We appreciate your participation here.

Next we will hear from Mr. Mike Mujadin, the Vice President for Operations of ANG Coal Gasification Company, and Will Lundberg, the General Counsel of ANG Coal Gasification Company, both from Beulah, North Dakota. Welcome.

Mr. Mujadin, if you would like to proceed, go ahead, provide your testimony. The ground rules are the same as always. We will enter your full statements into the record, and if you would prefer to summarize, that's fine.

STATEMENT OF MICHAEL J. MUJADIN, VICE PRESIDENT, OPERATIONS, ANG COAL GASIFICATION CO.

Mr. MUJADIN. Thank you, Mr. Chairman and members of the committee.

My name is Michael J. Mujadin. I am currently Vice President, Operations for the ANG Coal Gasification Company and as such have total responsibility for all operation, maintenance, technical and administrative activities at the site. I have been part of the project management team since its inception in February 1973 when the ANG Synthetic Fuels Group was formed.

I directed the process engineering and testing during the design phase of the project and thus am fully intimate with the technical details of the plant. I also directed the start-up planning and execution, as well as the policy and procedure development for the plant.

We have a unique set of personnel policies which afford every employee several avenues of direct access to me. Because of this relationship, I feel uniquely qualified to express the employee concerns to the committee.

The purpose of this testimony is to describe some of the main concerns of ANG employees regarding the same of the plant to Basin Electric. I will address only employee concerns assuming others will have covered whether this sale is good for the taxpayer and good for North Dakotans.

Throughout the plant sale process until now, no one has asked ANG management or employees what is important to the long-term successful operation. This in itself is demoralizing since the concerns of the very people who have designed, constructed and operated the facility have been ignored.

In March 1988 we expressed concern to DOE for employee retention through the change of ownership period. We requested consideration of potential fixes to four employee security issues. At the time of this writing, we have heard nothing back from DOE. The recommended program is described in Mr. Lundberg's testimony.

Now, obviously, we cannot list all the concerns of 843 employees. They are many and varied. However, the main concerns are job security, safety and efficiency of plant operation and the effect of the plant on the quality of life in the plant area.

Now, job security in Beulah or Hazen, North Dakota takes on a whole new meaning. The people who came here to operate the plant had to build new homes because this was a rural area. But Beulah grew from about 1,200 to about 5,000 residents as a result of the gasification plant and the power plants.

To lose a job in Beulah means walking away from one's home equity and acquiring a bad credit record because of an unpaid mortgage. In my personal case, I would lose about $75,000 to $80,000 in home equity if my job was done away with. This is because there is no other employment in the area and there will be no one moving in to purchase the homes with less jobs available.

There are employees today who have stopped making mortgage payments only because of their insecurity. They do not doubt the plant will keep running but they have no idea how a new owner will decide who goes and who stays.

Myself and the other employees who built or purchased homes in the plant area sunk our life savings into this move because we expected long and challenging careers in this national laboratory which was the key to the Nation's energy independence. We were not seeking ordinary jobs.

Unfortunately, ANG when through a work force reduction of 54 start-up employees in October 1985 shortly after DOE took over the plant and Basin Electric had a reduction of nearly 200 employees in late 1985. These were very traumatic and stick in people's minds. Although Basin may have had very good business reasons for the reduction, it is difficult for workers to understand, and the company's image still suffers from it.

In fact, someone in the area created a joke recently. The story goes that Basin will only develop one byproduct, argon. Asking why only argon, the reply comes, you are gone and you are gone

and you are gone. So, it's a good thing we still have a sense of humor.

The bottom line is that many employees are currently seeking other employment while they can still negotiate relocation and other conditions. What makes this worse is the fact that many who are looking have the critical skills and know-how to keep the plant operating successfully.

The next point is one of safety and efficiency. Over the life of this project, ANG developed the project, managed the design and construction of the plant, developed a unique set of policies and procedures and then planned and executed the start-up and operation. With the continuity and effort of ANG employees, the project has been a major technical success. In our third year of operation, 1987, we averaged almost 103 percent of the design production level. At the same time our recordable injury rate was less than half that of the chemical industry nationwide. We also made significant gains in researching and developing process improvements and maintenance efficiencies.

These successes were no accident. Rather, they are the result of a long period of dedicated effort by the entire ANG team regardless of when they joined the project.

The employees have expressed to me a concern for how a plant this large and complex can be operated safely if the people leave who fully understand why control systems and equipment were designed the way they were. Some Lurgi engineers told me that SASOL had some very serious accidents in a short time after their management team from SASOL I transferred to SASOL II for start-up. Lurgi engineers refused to return to SASOL I until improved management and safety could be guaranteed. I would not want to be part of this organization if I did not have the highly experienced and motivated supervisory and engineering staff that exists today to ensure safe operation.

Now, our management/employee relationship at ANG is somewhat unique. The appropriateness of this approach is borne out by a record of a safe, efficient operation. The employees do not want to see this style any more than they want to run the plant without the direction of supervision knowledgeable in this specific operation.

I am not criticizing Basin Electric. I know many of their employees and managers. They are competent people with a record of operating power plants that speaks for itself. However, I have not seen any depth of chemical process experience. This I feel is essential to maintaining a safe, efficient operation. The only way to ensure this is by keeping the ANG management and technical staff intact.

Basin officials have not said they are considering any cuts, but that perception exists and will probably not go away until Basin or the state or Federal Government provides some sort of guarantees. Basin has stated that employees will receive credit for prior years of service at the plant. Long-term employees like myself have 16 years of service on the project under ANG, but under Basin's statement, we would only have 6 years of service that would be credited. They may not mean only plant site credit, but that is not sure at

this time. This is an inducement for someone like myself to stay with ANR if they have any openings.

Without some early concrete assurances, we are sure to lose some key people in the near future. For the first time in nearly 16 years of dedication to the project, I have sent my resume out not because of disregard for Basin, but rather for the greater uncertainty that exists today. The potential for financial loss is probably greater in my case than most employees at the site, and I can't afford to overlook my options.

Finally, the quality of life in the towns near the plant site is a real issue. Everyone knows that combining support functions between Basin and ANG is a possibility. Our concern is that the loss of any additional payroll dollars from this plant and the support people in the towns who provide services to our employees' families will seriously disrupt the already fragile economy in the area. Bankrupt and closed stores, restaurants and motels do not provide much incentive for highly skilled people to stay in the area.

The sale of the plant to Basin in itself is not the issue. The issue here is that people problems associated with the sale have been ignored until now. I hope the review of this committee will provide some answers quickly before an exodus occurs which will seriously limit the plant's long-term viability.

Thank you.

[The prepared statement of Mr. Mujadin follows:]

Statement by

MICHAEL J. MUJADIN

before the

SENATE ENERGY COMMITTEE

Monday, September 12, 1988

Mr. Chairman and members of the committee, my name is Michael J. Mujadin. I am currently the Vice President Operations for ANG Coal Gasification Company and as such have total responsibility for all operation, maintenance, technical and administrative activities at the site of the Great Plains Coal Gasification Plant. I have been part of the project management team since its inception in February, 1973 when the ANG Synthetic Fuels Group was formed under Mr. Noel Mermer and Mr. Arthur Seder.

I directed the process engineering and testing during the design phase of the project and thus am fully intimate with the technical details of the plant. I also directed the startup planning and execution as well as the policy and procedure development for the plant.

We have a unique set of personnel policies which afford every employee several avenues of direct access to me. Because of this relationship, I feel uniquely qualified to express the employees concerns to the committee.

The purpose of this testimony is to describe some of the main concerns of ANG employees regarding the sale of the plant to Basin Electric. I will address only employee concerns assuming others will have covered whether this sale is good for the taxpayer and good for North Dakotans. Throughout the plant sale process, until now, no one has asked ANG managment or employees what is important to long term successful operation. This in itself is demoralizing since the concerns of the very people who have designed, constructed, started up and operated the facility have been ignored.

In March, 1988 we expressed concern to DOE for employee retention through the change of ownership period (transition). We requested consideration of potential fixes to four employee security issues. At the time of this writing we have heard nothing back from DOE. The recommended program is described in Mr. Lundberg's testimony.

Obviously we cannot list all the concerns of 843 employees. They are many and varied. However, the main concerns are job security, safety and efficiency of the plant operation and the effect of the plant on the quality of life in the plant area.

Job security in Beulah or Hazen, North Dakota takes on a whole new meaning. The people who came here to operate the plant had to build new homes because this was a rural area. Beulah grew from 1200 to about 5000 residents as a result of the gasification plant and power plants.

To lose a job in Beulah means walking away from ones home equity and acquiring a bad credit record because of an unpaid mortgage. In my personal case, I would lose $75,000 to $80,000 in home equity if my job was done away with. This is because there is no other employment in the area and there will be no one moving in to purchase the homes with less jobs available. There are employees today who have stopped making mortgage payments solely because of their insecurity. They do not doubt the plant will keep running but they have no idea how a new owner will decide who goes and who stays.

Myself and the other employees who built or purchased homes in the plant area sunk our life savings into this move because we expected long and challenging careers in this "national laboratory" which was a key to the nation's energy independence. We were not seeking ordinary jobs.

Unfortunately ANG went through a work force reduction of 54 startup employees in October 1985 shortly after DOE took over the plant and Basin Electric had a reduction of nearly 200 employees in late 1985. These events were very traumatic and stick in peoples minds. Although Basin may have had very good business reasons for the reduction, it is difficult for workers to understand, and the company's image still suffers from it.

In fact someone in the area created a joke recently. "The story goes that Basin will only develop one by-product - Argon. Asking why only Argon, the reply comes you are gone and you are gone, etc." Its a good thing we still have a sense of humor.

The bottom line is that many employees are currently seeking other employment while they can still negotiate relocation and other conditions. What makes this worse, is the fact that many who are looking have the critical skills and know how to keep the plant operating successfully.

The next point is one of safety and efficiency. Over the life of this project, ANG developed the project, managed the design and construction of the plant, developed a unique set of policies and procedures and then planned and executed the startup and operation. With the continuity and effort of the ANG employees, the project has been a major technical success. In our third year of operation, 1987, we averaged almost 103% of the design production level. At the same time our recordable injury rate was less than half that of the chemical industry nationwide. We also made significant gains in researching and developing process improvements and maintenance efficiencies.

These successes are no accident. Rather they are the result of a long period of dedicated effort by the entire ANG team regardless of when they joined the project.

The employees have expressed to me a concern for how a plant this large and complex can be operated safely if the people leave who fully understand why control systems and equipment were designed the way they were. Some Lurgi engineers told me that SASOL had some very serious accidents in a short time

after their management team from SASOL I transferred to SASOL II for startup. The Lurgi engineers refused to return to SASOL I until improved management and safety could be guaranteed. I would not want to be part of this organization if I did not have the highly experienced and motivated supervisory and engineering staff that exists today to ensure a safe operation.

Our management/employee relationship at ANG is somewhat unique in this type of operation. The appropriateness of this approach is born out by our record of a safe efficient operation. The employees do not want to see this style end any more than they would want to run the plant without the direction of supervision knowledgeable in this specific operation.

I am not criticizing Basin Electric. I know many of their employees and managers. They are competent people and their record of operating power plants speaks for itself. However, I have not seen any depth of chemical process experience. This, I feel is essential to maintaining a safe, efficient operation. The only way to ensure this is by keeping the ANG management and technical staff in tact.

Basin officials have not said they are considering any cuts, but that perception exists and will probably not go away until Basin or the state or federal government provides some form of guarantee. Basin has stated that employees will receive credit for prior years service at the plant. Long term employees like myself have 16 years service on the project under ANG, but will have only 6 years under Basin's statement. This is an inducement to remain

with ANR, if they have an opening.

Without some early (concrete) assurances we are sure to lose some key people in the near future. For the first time in nearly sixteen years of dedication to the project, I have sent my resume out, not because of disregard for Basin but rather for the greater uncertainty that exists today. The potential for financial loss is probably greater in my case than any other employee at the site and I cannot afford to overlook any options.

Finally, the quality of life in the towns near the plant is a real issue. Everyone knows that combining support functions between Basin and ANG is a possibility. Our concern is that the loss of any additional payroll dollars from this plant and the support people in the towns who provide services to our employee's families will seriously disrupt the already fragile economy in the area. Bankrupt and closed stores, restaurants and motels do not provide much incentive for highly skilled people to stay in the area.

The sale of the plant to Basin in itself is not the issue. The issue here is that people problems associated with the sale have been ignored until now. I hope the review of this committee will provide some answers quickly before an exodus occurs which will seriously limit the plants long term viability.

Thank you.

Senator CONRAD. Thank you, Mr. Mujadin, for your presence here today and for, frankly, your courage. I think you have been very direct and very open and very honest, and that is very important to the process here. And I know that it must not be easy to sit there and say what you have said, but it needs to be said. And so, I want to thank you and compliment you for having the courage to do it.

Next we will hear from Will Lundberg, and then we will go to questions of the both of you, if we could do that. Mr. Lundberg, welcome. Mr. Lundberg is the General Counsel of the ANG Coal Gasification Company.

STATEMENT OF WILFORD J. LUNDBERG, SECRETARY, BOARD OF DIRECTORS, ANG COAL GASIFICATION CO.

Mr. LUNDBERG. Thank you, Mr. Chairman. My name is Wilford Lundberg.

I am retired from ANG Coal Gasification Company where I served as vice president and general counsel for a number of years. But I continue to serve on the board and am the only original officer still on the board of directors. I also act as secretary of the board, and I am a member of the company's benefits committee. And I do some consulting work for the company from time to time. It is in that capacity that I have been asked to appear here on behalf of the company's employees.

One matter of concern to the employees at this time is embodied in a request which was made to the Department on March 28, 1988, nearly six months ago. The key elements of that request can be summarized as follows.

One, vesting by all employees under the savings and retirement plans would occur in the event of a change in company ownership. Additionally, if the retirement plant is terminated within two years after such a change, excess funds would be allocated pro rata to the employees.

Mr. Wampler addressed this issue, but only partially and only in the context that he was considering something in terms of a partial response.

Number two——

Senator CONRAD. Let me just stop you there. Was what you have just read earlier told to the employees?

Mr. LUNDBERG. These are the requests the employees made on March 28, 1988 to the Department. There has been no response.

Number two, benefits would not be diminished for two years following any change in company ownership.

Number three, severance pay for at least six months for terminations other than cause would be provided during the same two year period.

And number four, which is really a technical issue, the stock option issue which involves the stock of ANG would be resolved within one year after the purchase of the plant or it would be forfeited.

The second major concern of employees, however, is in the matter of long-term operations, including in this matter expectations for the expansion of career horizons through the applications

of coal and synthetic fuels technologies. The employees have been told that the plant will operate so long as revenues exceed expenditures. They have not, however, been given an opportunity to examine the details of the transaction in order to determine whether there are sufficient incentives and disincentives to make such a commitment meaningful.

This is particularly important since it has been suggested in North Dakota that Basin Electric Power Cooperative is taking on a risk-free venture. And, indeed, this morning we heard one of the members saying exactly that is what he wants it to remain and he wants DOE to guarantee that it remains that.

And when I say Basin Electric, I am distinguishing Basin Electric Power from the subsidiaries it creates. I presume they want that distinction made as well.

In this connection then, where is the real equity which is normally at risk in these situations?

Is the purchase price, reputedly at $85 million, to be raised by financing the mine equipment? There are $113 million worth of mine equipment out there which can be used for any purpose. My understanding under this transaction—and again, this is just my understanding based upon rumors—is that this mine equipment will be transferred to another subsidiary of Basin Electric who will in turn finance it to borrow the $85 million to pay for the plant for the other subsidiary. Then that $85 million will be recouped by raising the price of coal to the plant.

Number three, will the price of coal be raised to cover this investment?

Number four, are there controls in place which will guarantee that excessive administrative costs will not be levied against the project so that expenditure levels will not rise in order to cut into the commitment?

Number five, on whose credit will the letter of credit be issued and on what terms will it be called? We have heard some discussion of that today. Mr. Oliver addressed it partially, but I think even in Mr. Oliver's testimony, it is clear that there is a scenario where the $75 million trust fund could be called down before the letter of credit is issued.

My major concern here, however, is on who is going to issue it in whose name. Will we have a letter of credit issued by a credit worthy entity?

Number six, what are the requirements for capital improvements for or other means of revenue enhancement which normally are exacted in subsidized deals like this?

And lastly, and probably more importantly, what are the monitoring responsibilities in place to assure that properly trained and experienced management is in place and that the integrity of the project as a national laboratory will be preserved as contemplated in the original FERC authorizations on which this project depends?

In order to answer these questions, it is requested that an opportunity to examine the details of the transaction be afforded the employees. Only then can an informed judgment be made. This is particularly significant in light of the possibility of consumer interest in this matter. In a very real sense millions of dollars of consumer money has also been invested in the plant since the Department

decided to continue operations in 1985 because these consumers have been paying prices in excess of the market, a rate which has been approved by the FERC.

If you take the last three years, the consumers have paid $560 million for 150 billion mcf of gas. Today that average price is $3.75 per mcf. An average spot price of $1.75 per mcf translates into the fact that these consumers have contributed $300 million in equity capital to the success of this project. Between now and July of 1989, on the same basis, they will probably contribute another $80 million.

The quid pro quo for this investment, as contemplated by the FERC, was an assurance of cheaper long-term supplies. The employees not only have a very real interest in seeing that a satisfactory transaction is realized, they also have an interest in the reasonable assurance that it will not be set aside later by other groups whose legitimate expectations have not been addressed.

We all remember that in 1985 when the partnership defaulted, one of the first things that happened was that one of the pipelines attacked the validity of the gas purchase agreement. Well, what we are trying to avoid here is the same thing, only another group whose interests I don't think are being addressed. If they are, I would like to see while they are being addressed, and I want to review the transaction.

Thank you.

[The prepared statement of Mr. Lundberg follows:]

Statement by
WILFORD J. LUNDBERG
before the
SENATE ENERGY COMMITTEE
Monday, September 12, 1988

Mr. Chairman and members of the Committee, my name is Wilford Lundberg. I am retired from ANG Coal Gasification Company where I served as Vice President and General Counsel for a number of years and am the only original officer still on the Board of Directors. I also act as Secretary to the Board, I am a member of the company benefits committee and I do some consulting work for the Company from time to time. In that capacity, I have been asked to appear this morning on behalf of the Company's employees.

One matter of concern to the employees at this time is embodied in a request made to the Department of Energy on March 28, 1988. The key elements of that request can be summarized as follows:

1. Vesting by all employees under the Savings and Retirement Plans would occur in the event of a change in Company ownership. Additionally, if the retirement plan is terminated within two years after such a change, excess funds would be allocated pro rata to the employees.

2. Benefits would not be diminished for two years following any change in Company ownership.

3. Severance pay for at least six months for terminations other than cause during the same two year period would be provided.

4. The stock option issue would be resolved within one year after the sale of the plant.

The second major concern of the employees is the matter of long-term operations, including expectations for expansion of career horizons through the applications of coal and synthetic fuels technologies. The employees have been told that the plant will operate so long as revenues exceed expenditures. They have not, however, been given an opportunity to examine the details of the transaction in order to determine whether there are sufficient incentives and disincentives to make such a commitment meaningful. This is particularly important since it has been suggested in North Dakota that Basin Electric Power Cooperative is taking on a risk-free venture.

- If so, where is the real equity which would normally be at risk?

- Is the purchase price, reputedly at $85 million, to be raised by financing the mine equipment?

- Will the price of coal be raised to cover this investment, thereby increasing expenditures?

- Are there controls in place which will guarantee that excessive administrative costs will not be levied against the project?

- On whose credit will the letter of credit be issued and on what terms will it be called?

- What are the requirements for capital improvements or other means of revenue enhancement which are normally exacted in subsidized transactions like this?

- What are the monitoring responsibilities to assure that properly trained and experienced management is in place and that the integrity of the Project as a national laboratory will be preserved as contemplated in the FERC authorizations on which the Project depends?

In order to answer these questions, it is requested that an opportunity to examine the details of the transaction be afforded the employees. Only then can an informed judgment be made. This is particularly significant in light of the possibility of consumer interest in this matter. In a very real sense, millions of dollars of consumer money has also been invested in the plant since the Department decided to continue operations in 1985 because the consumers have been paying prices in excess of the market, a rate approved by the FERC. At least one quid pro quo for this was an assurance of cheaper long-term supplies. The employees not only have a very real interest in seeing that a satisfactory transaction is realized, they also have an interest in the reasonable assurance that it will not be set aside later by other groups whose legitimate expectations have not been addressed.

Thank you.

Senator CONRAD. All right. While I think you have asked some excellent questions that deserve a response—and I think this committee and the Federal Government have an interest in many of these questions as well. Obviously, the stability of the facility is a very high priority, the highest priority, because if we do not have stability, we cannot succeed.

We have people in place who are very knowledgeable and experienced and in my observation highly competent. It is critical that those people remain absolutely critical, critical to Basin Electric, critical to the State of North Dakota, critical to the Federal Government and the experiment that they have engaged in with the construction of this facility.

The questions that you have asked, Mr. Lundberg, I will make certain are put to Allen Wampler and also we will have a chance—and we will ask Mr. McPhail to come back and have a chance to ask some of these questions of him as well.

I think clearly we are going to need some additional time. One of the reasons I wanted to hold this hearing today was to have us have some additional time before the transaction is completed so that considerations of employees, considerations of Federal Government, considerations of the Federal taxpayer, considerations of state and local communities would have a chance to be addressed and considered before the transaction is completed.

Mr. Mujadin, you have raised, obviously, some serious questions that go to the question of the employees of that facility. And again, I would say by all accounts, they have done an absolutely superb job.

I know that Basin Electric executives had a series of meetings with employees at the facility. I would be interested in your characterization of those meetings. Did that allay some of the fears of people or was there not enough specificity upon which to base judgments?

Mr. MUJADIN. I applaud Mr. McPhail and Mr. Jansen for the presentations they made at the site. And I think they certainly helped. However, not having concluded the deal with DOE and all of the business decisions that still have to be made, I don't think those two gentlemen were able to answer questions at the level that the employees would have liked to have heard to give them that comfort level.

And the main purpose of my testimony really is that——

Senator CONRAD. To lay out the questions.

Mr. MUJADIN. A number of employees have come to me in confidence to say that they are being contacted by head hunters. They seriously have to think about their family security. They are asking my advice, and it puts me in a very difficult position because I can't answer their questions either at this point. I don't think it is fair to Basin either if they are to purchase this plant and then have the key people pack up and leave in the next couple of months.

I think something concrete has to be put in place so that these employees know what the game plan is, otherwise I don't think they have any other option but to protect their families and their own situations.

Senator CONRAD. You have raised very, very legitimate concerns that people obviously have. I mean, people's families are on the line here. And they need to know as quickly as possible what the answers are. And obviously, Basin is in a very difficult position being the buyer of a facility and being in a transition when not all of the arrangements have been negotiated. DOE is in a difficult position being the seller of a facility when not all of the agreements have been finally negotiated.

Basin has told me—and I'm sure they have told you—that they see the positions for the vast majority of employees at that facility, and I would suspect that that would give some support to the feelings of people that they ought to stick it out and see how things shake out. Now, obviously, there will be changes. Anytime you have a takeover of this magnitude, there will probably be some changes.

I have dealt with you, Mr. Mujadin, for a long time. And I would be very hopeful that people in your position and the operating people of that facility receive assurances very quickly that they have a future with this facility and a future that has promise to it. I personally believe—obviously, there is risk, but there is also opportunity associated with this facility. I know you believe that because you have made it happen and you have given extraordinary dedication to that plant, and that is recognized and deeply appreciated. And I think that we want to make certain that you and people like you are protected in this transition.

I am not at this point able to respond to the questions that you have raised, Mr. Lundberg, other than to say I think they are extremely good questions. Obviously, these are questions that are on the minds of people. As quickly as possible, we need to get those kinds of questions answered. They are legitimate, well thought out questions. And I think we should try to get them answered.

I think instead of my asking additional questions, because frankly I think you have done a superb job of raising those issues that need resolution and we need answers to—I think what I would like to do is to ask Mr. McPhail to come back up. And if you gentlemen would just move over a bit, we will just add Mr. McPhail to the table, and maybe we can go through some of the items that have been raised by the earlier testimony and also talk about some of the concerns that you have raised.

Mr. McPhail, I would like to first give you an opportunity to talk about the concerns that were raised by Mr. Nodland because he raised three concerns, and I wanted to make sure that we had a chance to get to those.

The three that he raised were: number one, the protection from liability for the Basin Electric membership. Could you comment on that? What is the assurance that you can give on the protection from liability of the Basin Electric membership itself. Obviously, they are not protected in the sense that they put up $115 million here.

Mr. MCPHAIL. I am not an attorney myself.

Senator CONRAD. That is probably a good thing.

Mr. MCPHAIL. Some of those questions are legal issues, Mr. Chairman.

But, unfortunately, there are not many guarantees in this world—you know, death and taxes, and there aren't many more. Everybody would like a guarantee, and Basin Electric unfortunately is not in a position to give everybody a guarantee.

I think we have done a good job at protecting our membership in setting up a separate corporation to purchase, own and operate this facility. I think we structured it as best we can and probably similar to what any other buyer would have done in order to limit the exposure of the total corporation's assets.

The membership, after spending two days of discussing this issue, I think felt comfortable in this area. They voted unanimously to proceed with the outlay of $150 million. And so, all I can say is I think we have done the best we can, and I think our membership believes that too.

Senator CONRAD. On the question of the $30 million for emissions, the improvement of the emissions problem that exists, do you make a commitment that that $30 million will be used for the purpose of improving the emissions problem that exists?

Mr. MCPHAIL. Absolutely. That is the whole purpose of that special trust fund is to remove the pollutants from the plant. And that would be our intent.

Senator CONRAD. And you had earlier indicated you have a commitment to use the best available technology which is the requirement that exists.

Mr. MCPHAIL. Yes, sir, that is correct.

Senator CONRAD. The third question that was made was the honoring of all provisions of the siting requirements. And your earlier testimony, as I recall it, was that you, in fact, made that commitment on behalf of Dakota Gas.

Mr. MCPHAIL. Yes, sir, that is correct.

Senator CONRAD. And that you intend to honor all the provisions of the siting.

Mr. MCPHAIL. Dakota Gasification will assume all the responsibilities associated with those permits.

Senator CONRAD. Well, let's turn to the questions that Mr. Mujadin and Mr. Lundberg have raised because I think they have raised good questions. And I think we would all understand if you are not prepared to give answers today to all of these questions. I would be surprised if you were able to answer all of these questions today.

But I think what we need to do is to have a dialogue here that gives some assurance of a process and some idea of time frames and how we might go about getting answers to those questions that would resolve the legitimate concerns that employees have raised and are raising.

I sense from Mr. Mujadin's comments an understandable anxiety and frustration perhaps even of the employees who are really key to this operation feeling that they have not yet been made as central to this process as they might be. How do you react to that when you hear that? And what plans do you have that would make Mr. Mujadin and his associates feel that they are going to be included and consulted as we proceed down this path?

Mr. MCPHAIL. I personally recognize the fact that people are the key to make any operation successful, and certainly this is no different than any other organization. And I think all of the employ-

ees have a lot of concerns and need to be able to air those concerns and need to have access to information. And that was the reason that I spent two days at the plant meeting with the people and trying to respond to their questions as best we could.

Understanding that there are a lot of points that still are not negotiated on this deal—so we don't have all of the answers unfortunately—I think we answered a lot of their questions. We answered many, many questions. One person walking out the door in one of these sessions made the comment he had worked there for five years, and this was the most information he had been given in five years in the one hour and a half that I spent with him.

But it is never enough, you know. You can never do too much in the way of keeping people informed and responding to their concerns and to their needs. We are concerned that we keep the key people at that plant who have done a tremendous job in operating that plant, and we are going to do everything we can to keep those people in place.

Senator CONRAD. What would you say—and I am thinking of the audience that is out there, and you have a guy that has a $70,000 mortgage, and he's a technical operator at that facility. And he has been there six or seven years, and he is five years, six, seven years on the project maybe. And he is wondering, boy, I have somebody calling and wanting to know if I want to go to Detroit to operate a facility there. Do I cut and leave now or do I stick around and see what happens as we go through this process? What would you say to that person? Frankly, what do you say to Mike Mujadin? What do you say to give them assurance that they ought to hang on as we go through the final process here of transition?

Mr. MCPHAIL. Well, putting myself in their place, this project has been in kind of limbo for a long time. The Department of Energy, when they repossessed the plant, threatened to close the plant. And Basin Electric and its membership did everything politically possible to try and encourage the government to continue to operate that plant. And so, we spent a lot of manpower and effort to keep that plant open and operating because it is in our best interest to do so.

I don't really think the employees at the plant fully understood all of the things that Basin had been involved in and have achieved in order to make that plant a success. I think we have a lot of informing to do to really get the people up to speed on the role that Basin has already played in that process.

What I say to Mike—I've already said to Mike that I want he and all his key operating people to stay in place. They have a job at the plant. We need them. And what more can I say?

Senator CONRAD. Is there something you would want to ask Mr. McPhail, if you had one question that was burning in your mind that you would like to get answered?

Mr. MUJADIN. Well, I think Friday Kent Jansen and I talked about the fact that people were being contacted, and Kent made the same statement that Bob just made that they would like to keep people in place.

However, I feel that something concrete needs to be said in terms of a plan that this will be the salary program, this specifically will be the benefit program, because the head hunters that are talking

to these people are saying those things to them. And when they know exactly what they are going to be getting from company X and they don't know from company Y, it makes them lean toward company X. And we are just not there today I guess. That is the problem.

I suggested to Kent on Friday that we sit down this week, if it is possible, to try and put a plan together.

Senator CONRAD. Bob, would you want to respond to that in terms of—I know that it is very difficult because you are in this transition in dealing with DOE and all the rest. But is there some time frame that we could give people who are wondering about a decision they need to make?

Mr. MCPHAIL. The only thing I can say to that is if I were sitting in Mike's place with the possible $80,000 loss on a home, I think I would wait a couple of weeks until this sale is completed and then see where I am after a few weeks.

Senator CONRAD. And what are we looking at in terms of a time frame?

Mr. MCPHAIL. The objective, as I understand it, is to try to get the sale completed by October 1.

Senator CONRAD. October 1. So, we are talking about a very short time frame in terms resolving some of these basic questions, for example, benefits package. What would be the specific question as it relates to the technical questions of how jobs are offered to individuals?

In other words, if I were Mike, I am now an employee of ANG. I have a long history with them. I would assume that parent may be making an offer to Mike. So, that puts him in—you know, he has a bird in the hand, and he doesn't know if he has a bird in the other hand or not because he doesn't have a formal offer I presume. He has a verbal assurance, but he doesn't have an offer that tells him what he is going to get paid and what the benefits are, et cetera. And that is understandable from your perspective.

How are we going to see an unraveling of that and a playing out of that? I mean, what is going to happen that is going to allow an offer to be made by Dakota Gas to Mike so he knows what the pay and benefits are? When would that occur?

Mr. MCPHAIL. I really don't know the answer to that. I assume that will occur somewhere close to the closing date, once we set a closing date.

Senator CONRAD. And when would the closing date be? Would that be October 1?

Mr. MCPHAIL. That is the target date.

Senator CONRAD. The target date is October 1.

Mr. MCPHAIL. That has been set by the Department of Energy.

Senator CONRAD. Does that give you any better sense, Mike, of what is occurring here?

Mr. MUJADIN. Not necessarily. I think part of the key here is if the reason that we ask the Department of Energy to consider this employee security package was because we felt that ANG had a responsibility regardless who bought the plant site, a responsibility to turn over that technology to the new owner. And that is why two years were specified for this benefit period. And this two year

period—it wouldn't matter then if we returned to the parent firm to protect the long career with that parent firm.

However, I do think it is important, though, that in some orderly fashion, though, that the Basin people that are coming on this job, that we do transfer that technology to them in some orderly fashion. And it is going to take some time. And we appreciate that.

My concern is the state of some of the key employees that, frankly, I was surprised when they came to my office. A couple of them came to my home in the evening. And I have never seen people in such a nervous state before that they just had a very severe concern that people would be leaving and they would be strapped with responsibility that they thought was beyond their capability.

Senator CONRAD. Well, I can understand. I remember going through this a number of years ago, and there is not much of a market—let's face it—there is not much of a market for these homes. And you are talking about a very, very serious thing to people's lives.

And I would hope that based upon what we have heard here today, that Basin will respond appropriately, and I am confident that they will, and that as quickly as possible, these discussions will go forward, and that the questions that you have raised would start to be resolved.

Now, we understand Basin is in a very difficult position because they don't fully know at this point the rules of the game and what the final agreements are going to be with DOE. But I do think in this transition period, it is absolutely critical that the employees feel a sense of security and of confidence about how they are going to be treated.

And I understand that maybe not everybody is going to have a job and there is certain overlap between Basin and this facility. And so, there probably will be some changes. But I would hope at the technical level especially, that very quickly those people would be given an assurance. And I understand they already have verbally many of them, but of exactly what the details are. That is what I hear you saying. Am I hearing right?

Mr. MUJADIN. Yes, exactly. What will their salary program be? What will their benefit program be? Is there some period of security they can look forward to to be able to complete that transfer of technology like the two year minimum that we had requested from DOE, something of that nature that people could look forward to?

Senator CONRAD. The two year minimum. Describe that to me one more time again how that would work. Wil, maybe you could do it.

Mr. LUNDBERG. The request, for example, for a covenant on behalf of a new owner. Let me point out this request was made before anybody knew Basin Electric was going to buy the plant. It was made before. It was a request that there be no change in benefit plans for two years, for example, that there would be a severance program in place for two years. In other words, it was to provide security for two years so that a transition period could proceed smoothly. That was the purpose for it.

Senator CONRAD. Could we just turn to some of the other questions that Mr. Lundberg raised? One was—and I didn't capture them all because you had a fair number of them. But I captured

some of them, and if I missed some, I will give you the opportunity to raise them yourself.

One was the question of who will issue the letter of credit. I assume that Basin will issue the letter of credit, or is that an incorrect assumption?

Mr. McPHAIL. That's right. Basin has pledged to offer the letter of credit.

Senator CONRAD. So, the letter of credit would be issued by Basin.

Mr. McPHAIL. That's right.

Mr. LUNDBERG. On the strength of Basin's credit, Basin Electric Power.

Senator CONRAD. The second question that I heard raised was a question of whether the price of coal to the plant would be increased in order to finance the $85 million.

Mr. McPHAIL. Under our scenario, Dakota Coal Company would own and operate the mine and mining equipment and Dakota Coal Company would sell coal to the gas plant, to the Dakota Gasification Company. That is the way that would work.

Senator CONRAD. And would you plan an increase in the coal price? As I heard the concern raised by Mr. Lundberg, it was that the price of coal would be increased in order to finance.

Mr. McPHAIL. That's right, but we under this scenario have guaranteed to operate this plant at a fixed cost. So, no matter what the coal cost, we cannot charge an operating expense above the level that we have guaranteed.

Senator CONRAD. Mr. Lundberg, you appear quizzical.

Mr. LUNDBERG. Well, yes. The covenant I have heard is that so long as revenues exceed expenditures on a cash-to-cash basis. Now, are you telling me that there is a target of expenditures that even—for example, are you telling me this, that you have agreed that we will deem expenditures to be $100 million a year; if they go up to $150 million, we will still deem them to be $100 million a year for purposes of satisfying the covenant? Is that what you are telling me?

Mr. McPHAIL. No, that's not what we're saying. We have specified in our offer what we call schedule A which has a specific target on what the operating expenses will be charged to the operation. It starts out at slightly over three years, $3 per thousand cubic feet, and there is adjustments in there for inflation in the future.

Mr. LUNDBERG. And how does this impact the covenant to operate? Are you covenanting not to exceed $3? Is that it?

Mr. McPHAIL. Our guarantee is to keep the plant operating as long as revenues exceed expenses on a cash-to-cash basis. In other words, we are in a position where it costs us money to close that plant down. So, if it cost more money to close it down than it does to operate it, theoretically we may operate it at a loss.

Mr. LUNDBERG. And that's the way it ought to be. I understand that, but I'm still puzzled with respect to this covenant. At the one hand, I keep hearing it over again; on the other hand, I keep hearing something that suggests an agreement, that your operating costs are not going to exceed a certain amount or a certain target.

That is very helpful to know. If that is the case, it is very helpful to know which is why I just asked to see the deal.

I don't understand the purpose of this amendment. The amendment itself, as I recall, requires that the details of this transaction, including terms and conditions, be placed before Congress for a 30-day period. I am finding now we don't even know what the terms and conditions are.

Senator CONRAD. Well, I think what the obligation of DOE was was to have this transaction available for Congress to review for a period of 30 days. And, frankly, it is on our shoulders to see that we get all of the detail that we want to get in order to satisfy ourselves. It seems reasonable to me that Congress would want to have the full detail of the transaction in order to make its own judgment. And obviously that would be available to others to make judgments upon.

As we have heard, not everything has been agreed to. And so, the details of the agreement are not all filled in yet. And this isn't on Basin's hook. This would be between us and the Assistant Secretary, and I will ask for the details of what has been entered into thus far so that we have a chance to look at that.

There were other questions that were raised in terms of capital improvements, monitoring responsibilities, a series of things that really I think go to a question of what Congress has provided as assurances from the Assistant Secretary and how they have entered into this transaction. And I think on the question of monitoring, for example, there is a real public interest, and that we would want to be satisfied on that question and that we should ask Mr. Wampler that in terms of how they provide for the final transition, capital improvements.

I took from what you were saying, Mr. Lundberg, that in a sale like this—it is a negotiated sale—that there may be some requirement for capital improvements. That would be I assume so a plant not be bled, that there be an ongoing performance of capital improvements. That has been provided for, to some extent I suppose, in the $30 million trust fund, but that is only with respect to emissions.

Mr. LUNDBERG. Normally. And we can't characterize this as being anything more than a subsidized transaction. It is a decision by the government to divest itself of a national asset, and it is doing so in a subsidized fashion. But we have to remember that this national asset had responsibilities and it has continuing responsibilities to the people who are paying for it; that is the consumer. That's the consumer.

And it seems to me that the taxpayer has been looked after by simply saying we are writing off the taxpayer and his contribution, but we have overlooked the consumer. And the consumer has this right to expect that there is an ongoing monitoring function to make sure that the original purpose for this project which was more than just to produce gas—indeed, one of the requirements, for example, that DOE required of the partnership in the first years was to conduct a detailed feasibility study for turning into liquids.

But the original FERC authorizations contemplated an ongoing national laboratory to perform research and development activities relating to all sorts of coal and syn fuels technologies. And that

was to be the quid pro quo that the consumers were to get for paying these prices. And that is what I mean by monitoring and as DOE has done over the years.

Senator CONRAD. I understood——

Mr. LUNDBERG. Now, the capital improvements issue really goes to the incentive or a requirement for revenue enhancement. If the commitments you see to operate those is revenues over expenditures, then there ought to be two kinds of mechanisms in place: one mechanism, make sure that expenditures are kept down; and the other mechanism, make sure that revenues are enhanced.

And what I am thinking about here is the normal requirement be that there be a capital budget. And this is risk capital, a capital budget to take care of upsets in the plan and to look at possibilities for revenue enhancements. That was the point.

Senator CONRAD. It seemed pretty clear to me that Basin has a strong interest in revenue enhancement.

Mr. LUNDBERG. I think normally most people do.

Senator CONRAD. On the cost containment side, what I hear Bob McPhail saying is that there is some cost containment provisions. Is that correct?

Mr. MCPHAIL. There are capital improvement provisions too factored into the guaranteed cost that we will operate the plant for. That is operations, maintenance, capital improvements. All those are factored into the number.

Senator CONRAD. Are there controls in place which would guarantee that excessive administrative costs will not be levied against the project?

Mr. MCPHAIL. Because of the structure of this deal, that is a moot question. And that is why we have structured it the way we did.

Senator CONRAD. And it's a moot question because you have a separate entity that operates this facility?

Mr. MCPHAIL. No, because we have a specific guaranteed price we're going to operate the plant for. We can't charge any more than that.

Mr. LUNDBERG. Well, I would certainly like to see how it works and what the remedies are and how it is set up. It sounds like a very good concept. I would like to see how it is set up.

Senator CONRAD. In every part of this transaction where I have had a chance to see the way it has been structured, without exception I have been impressed by the thought that has gone into it. I must say having served in government most of my adult life, it is a rare treat to see something handled with such intelligence. And, again, I think most of the credit for that goes to Mr. Wampler and his staff. And I must say over and over I have been impressed by just the level of thought that has gone into this.

Well, I think we have raised most of the questions that we could address here. And I think there are others that need to be addressed that are more properly addressed to Mr. Wampler, and we intend to do that to try to get answers on an expedited basis.

Are there any further questions anybody would want to raise or a final comment anyone would want to make? Yes, Mr. Nodland?

Mr. NODLAND. Will all of the documents be available to the public?

Senator CONRAD. Yes, and the record will be held open for another two weeks.

And as I say, the hearing record will remain open for two weeks. And I will seek answers to the questions that have been raised by Mr. Lundberg and Mr. Mujadin, to the questions that they raised from the appropriate sources whether they be—Mr. McPhail, I think most of those we have pursued here, but we will put those to him as well. And for those that are answered more appropriately by Mr. Wampler—and there are a number of them—that those be addressed by him.

If there are no further statements from any member of the panel, let me thank everyone who has come and testified here today. I feel I have a much greater appreciation for the terms of the transaction and also some of the outstanding issues. Obviously, there are more challenges ahead, and I think all of us have heard here some very legitimate concerns on the part of the employees. And I am hopeful that those will be addressed quickly.

And I am also mindful of the risk that exists. We all know this is not a risk-free environment within which we are operating. But I must say I am impressed by the extraordinary professionalism of Mr. Wampler and his associates in trying to structure this deal in a way that gives us the greatest assurance of the continuing operation of the facility in private hands and as well the interest of the taxpayers having been protected to the maximum extent possible, given the dramatic changes in the marketplace that have occurred.

And so with that, I want to again thank all of you for participating. Your candor and your openness are deeply appreciated, and I think all of us will benefit from that.

And to Basin, I want to wish you the best of luck. You have a tiger by the tail. We know this is not an easy thing to do. But there is enormous potential and we hope that that potential will be realized.

With that, we will close this hearing of the Senate Energy and Natural Resources Committee.

[Whereupon, at 1:05 p.m., the hearing was adjourned.]

[Subsequent to the hearing Mr. McPhail submitted the following:]

BASIN ELECTRIC POWER COOPERATIVE
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September 29, 1988

The Honorable Senator J. Bennett Johnston
Chairman, Committee on Energy
and Natural Resources
United States Senate
136 Senate Hart Office Building
Washington, DC 20510-1801

Dear Senator Johnston:

On behalf of Basin Electric Power Cooperative, I would like to thank you, Senator Conrad and the other members and staff of your committee for the invitation to appear before the Committee and the courtesies extended during our visit. I would like to thank you for your continuing interest in the Great Plains Coal Gasification Project. Basin Electric looks forward to timely closing of the transaction. The Project presents exciting and challenging prospects for Basin Electric, Dakota Gasification Company and Dakota Coal Company.

Enclosed herewith you will find our answers to the additional questions posed by Senator Conrad as a result of statements made and issues raised at the hearing. I trust that these answers are responsive. If further responses or additional questions arise, please do not hesitate to contact me.

Thank you again for your continued interest in and support of the Project.

Sincerely,

Robert L. McPhail

RLM/MJH/mw
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ANSWERS TO ADDITIONAL QUESTIONS FOR ROBERT MCPHAIL FROM SENATOR CONRAD

Question #1: It has been suggested that Basin Electric is acquiring a "risk-free" venture, and that therefore the cooperative will have little incentive to operate the facility for the long-term leaving little opportunity for employees to expand career horizons through the applications of coal and synthetic fuels technologies. Please comment upon Basin's commitment to long-term operation of the facility and the potential for employees to enhance their careers through the applications of coal and synthetic fuels technologies.

Answer: Basin Electric will not be acquiring a "risk-free" Project. However, Basin Electric, on behalf of itself and the subsidiaries which will be established to implement the proposal, has sought to reduce or eliminate risks wherever possible. Sound business principles require nothing less.

In order to accommodate the needs of the coal gasification plant, Basin Electric invested in a water intake structure, seven mile pipeline, water treatment facilities, storage ponds and a railroad, all of which facilities were intended to provide services to Basin Electric's Antelope Valley Station (AVS), as well as the Great Plains Project. In addition, other Basin Electric investments such as transmission lines and transformers serve only the Great Plains Project. The Basin Electric investment in these shared facilities and transmission exceeds $100 million. Further, 90 megawatts (MW) of AVS Unit No. 2 capacity was dedicated to serve the Project. The investment in this 90 MW of capacity was approximately $135 million. Basin Electric financed and

constructed these facilities and Basin Electric has the obligation to repay to the Rural Electrification Administration and other lenders/lessors, over periods of up to 35 years, the entire amount of loans with respect to such facilities. Basin Electric invested in excess of $235 million in the expectation that the gasification project would operate not less than the projected 25 year useful life. While Basin Electric also makes use of some of these shared facilities and while it continues to make every effort to minimize the impact of the abandonment of the Project in 1985 by the partners, repayment of this debt without raising electric rates to rural electric consumers still depends on long-term successful operation of the Project because of the prior $235 million investment.

The proposal submitted to and accepted by the Department of Energy provides that profit sharing payments to the Government are limited to revenues from the sale of synthetic gas. All DGC revenues related to the development and sale of by-products are DGC's. However, to the extent by-product production reduces synthetic gas production, DGC will make DOE whole for and to the extent of the diminished synthetic gas production, on the same basis as if the synthetic gas had in fact been produced and sold. Thus, DGC has a very strong incentive to maximize the development of by-products in order to enhance the long-term prospects for the success of DGC and the Great Plains Project. DGC will need to rely upon the expertise of its staff at the gasification plant in order to enhance the prospects for and insure the development of by-products. Thus, by-product development provides an excellent opportunity for DGC employees to enhance their careers through the development and application of coal and synthetic fuels technology.

Question #2: It has also been suggested that Basin Electric will have no real equity at risk when it acquires the Great Plains plant. Please comment.

Answer: In addition to the investment in power supply capacity and shared facilities discussed in Answer No. 1, Basin Electric is committing itself to spend up to $115 million in its acquisition of the Great Plains Coal Gasification Project. This $115 million is comprised of the $85 million up-front payment from the Basin Electric subsidiaries, as well as an obligation on the part of Basin Electric to make or cause to be made loans to Dakota Gasification Company up to $30 million pursuant to a revolving credit agreement.

Question #3: Will Basin Electric raise any of the purchase price ($85 million) by financing mine equipment?

Answer: Basin Electric Power Cooperative will pay, through Dakota Gasification Company and Dakota Coal Company, the initial $85 million purchase price from its own general funds. Basin Electric is presently evaluating the option of Dakota Coal Company entering into sale-leaseback transactions pursuant to which certain major items of mining equipment at the Freedom Mine would be sold to one or more investors and immediately leased back for lease terms covering substantially all of the useful lives of said mining equipment. Basin Electric will guarantee repayment of the lease payments.

Question #4: Will Basin raise the price of coal to cover its investment, thereby increasing expenditures?

Answer: The Contract Production Cost concept included in the Proposal is designed to eliminate issues related to the actual cost of operating the Project. The government's return is tied to a predetermined schedule of guaranteed operating cost rather than actual cost. This schedule, which is called the contract production cost, includes escalation over time. If actual production cost exceeds the contract production cost then DGC must absorb the difference.

Question #5: Are there controls in place which will assure that excessive administrative costs will not be levied against the Project?

Answer: The very nature of the contract production cost approach proposed by the Basin Electric bid insures that administrative costs, as well as all other costs incurred to operate the Project, will be minimized so that the Dakota Gasification Company can produce synthetic natural gas for the guaranteed contract production cost for each given year. Furthermore, the determination of the government's share of Project profits is tied to the contract production cost and is independent of actual Project administrative cost.

Question #6: With respect to the $30 million line of credit that Basin Electric will offer for the Project, on whose credit will the letter of credit be issued, and on what terms will it be called?

Answer: The credit provided will be a line of credit rather than a letter of credit. Our plan contemplates that Basin Electric will be committed to lend up to $30 million to Dakota Gasification Company to support such things as

Project operations, capital improvements, by-product development and other items that will help ensure the long-term operation of the project.

Question #7: What contacts has Basin Electric made, or what contacts does Basin Electric plan to make, with current management to discuss matters of importance for long-term operation of the facility?

Answer: Basin Electric Power Cooperative limited its discussion with current ANG management until the Basin Electric membership approved the purchase of the Project on August 24, 1988. Since that time, members of a transition team headed by Kent Janssen, Vice President and Chief Operating Officer of the Dakota Gasification Company, have met on a fairly continuous basis with their counterparts at the Great Plains Project. These meetings have involved in-depth discussions and will continue on an on-going basis. It has been our initial concern to gather the information necessary to become familiarized with the Project and the staff. For the most part, ANG personnel have been very cooperative in supplying the information requested and providing access to the personnel and facilities as needed.

Question #8: Some employees have expressed concerns about whether the plant will continue to operate safely. Please comment and note in particular any plans that Basin Electric has to utilize the safety expertise currently available at the plant.

Answer: Mr. Fred Mistal, a member of the transition team Basin Electric's and Director of Safety, Health & Environmental Affairs, has been at the plant

almost continuously since August 24, 1988. Mr. Mistal has toured a number of the plant facilities and has discussed safety and has reviewed some of the safety programs in place at the Project. Basin Electric has an extensive corporate safety program in place. Since it is contemplated that administration of the Project's safety program will be one of the administrative services performed under the supervision of Basin Electric, the Cooperative will utilize this expertise to assist Dakota Gasification Company in continuing its current safe environment.